HUGO BOSS

ANNUAL REPORT 2016

HUGO BOSS TEN-YEAR OVERVIEW

	2016	2015
Net sales (in EUR million)	2,692.8	2,808.7
Net sales by segments		
Europe incl. Middle East and Africa	1,660.0	1,683.2
Americas	581.9	670.5
Asia/Pacific	381.5	392.9
Licenses	69.4	62.1
Net sales by distribution channel		
Group's own retail business	1,677.1	1,688.8
Wholesale	946.3	1,057.8
Licenses	69.4	62.1
Results of operations (in EUR million)		
Gross profit	1,777.5	1,852.8
Gross profit margin in %	66.0	66.0
EBITDA	432.7	589.9
EBITDA before special items	493.1	594.1
Adjusted EBITDA margin in %[1]	18.3	21.2
EBIT	263.5	447.7
Net assets and liabiltiy structure as of December 31 (in EUR million)		
Trade net working capital	524.4	527.6
Non-current assets	751.7	764.6
Equity	887.6	955.7
Equity ratio in %	49.3	53.1
Total assets	1,798.6	1,800.3
Financial position and dividend (in EUR million)		
Free cash flow	220.2	207.6
Net financial liabilities (as of December 31)	113.2	82.2
Capital expenditure	156.8	220.3
Depreciation/amortization	169.2	142.1
Total leverage (as of December 31)[2]	0.2	0.1
Amount distributed	179.4[3]	249.8
Additional key figures		
Employees (as of December 31)	13,798	13,764
Personnel expenses (in EUR million)	604.6	562.8
Shares (in EUR)		
Earnings per share		
Ordinary share	2.80	4.63
Preferred share	–	–
Dividend per share		
Ordinary share	2.60[3]	3.62
Preferred share	–	–
Last share price (as of December 31)		
Ordinary share	58.10	76.60
Preferred share	–	–
Number of shares (as of December 31)	70,400,000	70,400,000
Ordinary share	70,400,000	70,400,000
Preferred share	0	0

[1] EBITDA before special items/sales.

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

[3] Dividend proposal.

[4] Special dividend payment of EUR 345.1 million and EUR 5.00 per ordinary and preferred share.

2014	2013	2012	2011	2010	2009	2008	2007
2,571.6	2,432.1	2,345.9	2,058.8	1,729.4	1,561.9	1,686.1	1,632.0
1,566.5	1,457.3	1,378.0	1,245.4	1,073.2	1,041.3	1,170.0	1,151.1
586.6	570.1	558.7	454.8	380.7	312.2	307.0	298.0
360.8	346.8	352.7	309.3	230.4	164.7	162.1	134.0
57.7	57.9	56.5	49.3	45.1	43.7	47.0	48.9
1,471.3	1,314.1	1,149.7	924.2	691.1	510.3	455.8	416.1
1,042.6	1,060.1	1,139.7	1,085.3	993.2	1,007.9	1,183.3	1,167.0
57.7	57.9	56.5	49.3	45.1	43.7	47.0	48.9
1,699.1	1,579.6	1,444.1	1,252.0	1,022.4	836.2	891.0	845.0
66.1	64.9	61.6	60.8	59.1	53.5	52.8	51.8
571.5	561.4	523.9	468.0	340.1	226.5	235.8	284.2
590.8	564.7	528.1	469.5	353.7	269.2	272.2	271.8
23.0	23.2	22.5	22.8	20.5	17.2	16.1	16.7
448.7	456.2	432.0	394.6	267.9	157.4	174.8	216.8
503.0	431.8	408.5	399.6	322.7	295.6	458.3	421.7
660.3	611.5	587.7	503.2	454.5	435.0	463.0	400.5
843.9	740.3	631.6	517.3	361.2	205.5	202.9	550.7
50.8	49.3	40.0	36.4	26.9	19.3	17.5	53.0
1,661.8	1,501.3	1,577.2	1,419.6	1,342.8	1,065.4	1,161.6	1,039.3
268.4	230.0	220.6	194.9	246.3	299.5	48.1	33.0
35.7	57.0	130.4	149.1	201.1	379.1	583.2	168.2
134.7	185.3	165.8	108.5	55.6	48.3	118.8	84.7
122.8	105.3	91.9	73.4	72.2	69.1	61.0	67.4
0.1	0.1	0.2	0.3	0.6	1.4	2.1	0.6
249.8	230.5	215.3	199.1	139.7	66.6	94.9	100.4[4]
12,990	12,496	11,852	11,004	9,944	9,027	9,593	9,123
514.4	483.1	450.1	373.7	364.5	329.4	353.0	302.6
4.83	4.77	4.44	4.12	2.73	1.52	1.62	2.20
–	–	–	4.13	2.74	1.53	1.63	2.21
3.62	3.34	3.12	2.88	2.02	0.96	1.37	1.45[4]
–	–	–	2.89	2.03	0.97	1.38	1.46[4]
101.70	103.50	79.80	55.19	49.23	20.22	17.30	39.60
–	–	–	56.90	56.50	24.55	14.40	39.00
70,400,000	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000	70,400,000
70,400,000	70,400,000	70,400,000	35,860,000	35,860,000	35,860,000	35,860,000	35,860,000
0	0	0	34,540,000	34,540,000	34,540,000	34,540,000	34,540,000

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LETTER TO SHAREHOLDERS

Dear Shareholders,
dear Readers,

2016 was a year of change for HUGO BOSS. The past twelve months were marked by a difficult market environment and company-specific challenges. This is also shown by the sales and earnings figures. Sales declined by 4% to EUR 2.7 billion, which corresponds to a decrease of 2% in currency-adjusted terms. Operating profit dropped 17% to EUR 493 million.

The challenges were clear to see right from the first months of the year. We reacted quickly to this and introduced a wide range of measures to support the development of earnings. These measures enabled us to save more than EUR 65 million of costs. The renegotiation of rental agreements in the Group's own retail business and the strict management of administration expenses played a large part in this. We also analyzed the profitability of our store network. The decision to close 20 stores that had a negative effect on margins was certainly a hard one to take, and resulted in significant short-term costs. It will, however, help to get the Group back on track to profitable growth.

We have also worked on strengthening our position in core markets: in the USA we have parted ways with wholesale partners who were largely driven by discounts and therefore had a negative effect on our brand image. We deliberately passed up on sales in this respect. In the long term, however, our brand image and the demand in our own retail business should both benefit from this move. In China we adjusted sales prices to bring them more in line with those in Europe and the Americas. The considerably improved price/value proposition has proven to be a major competitive advantage. At the same time, we also significantly expanded our digital brand communication in China, allowing us to reach far more consumers than previously. This has enabled us to achieve a turnaround on the Chinese mainland. In the fourth quarter, we managed to increase comp store sales in this market by almost 20%.

Finally, we continued to drive forward the digitization of our business model in 2016. In Europe, we insourced the online fulfillment from a partner and introduced service offerings in various European countries to integrate our brick and mortar business and online retailing. We relaunched the website hugoboss.com to improve the presentation of our product offerings and link it more closely with editorial content.

We are aiming to return to sustainable and profitable growth by further developing our strategy announced in fall last year. In 2017 we will implement this strategy by means of defined measures. The central element of the strategy is focusing the portfolio on just the two brands BOSS and HUGO. Discussions with end customers and wholesale partners revealed that the positioning of our brands was not sufficiently clear and comprehensible. We therefore made the decision to integrate the BOSS Green and BOSS Orange brand lines into the BOSS core brand. Going forward, BOSS will concentrate on just one, clearly defined customer whom we will offer outfits for all wearing occasions: business, casual and athleisure. BOSS will thereby strengthen the core of the brand in the upper premium

segment. In contrast, we will more consistently market our HUGO brands to a more fashion-conscious customer base. This means that HUGO has an enormous growth potential in the medium and long term.

Both brands will play an important role in our own retail stores as well as in the wholesale channel. We are confident that we can continue to improve sales figures in our own retail stores with a broader and better range of products in the commercially important entry-level price range. By expanding our casualwear offering, we hope to benefit from the fact that there is currently more demand for casualwear than for classic tailoring through the market. The online business is also expected to make an important contribution towards future growth. Overall, we are aiming to increase the productivity of our own retail stores by around 20% over the next five years.

Our financial outlook is already showing the first positive results of the measures described above. Thus, the Company expects Group sales to be largely stable in the current year. The EBITDA before special items is expected to develop within a range of -3% to +3%. Consolidated net income should grow by a double-digit rate, bolstered by the non-recurrence of high one-time expenses related to store closures in the previous year.

The multitude of changes in the previous year asked a lot of our employees. I would like to take this opportunity to thank them for all their hard work. We will work closely together over the coming months to implement our strategic plans. I am confident that we will make great progress in this regard in 2017.

Sincerely yours,

Mark Langer
Chief Executive Officer

MANAGING BOARD

MARK LANGER

(from January 15, 2010 Member of the Managing Board, from May 19, 2016 Chairman of the Managing Board)
Stuttgart, Germany

Chairman of the Managing Board

Responsible for

Corporate Strategy and Communication, Controlling, Finance, Internal Audit, Central Services, IT, Legal/Compliance, Human Ressources, Global Sourcing and Production, Supply Chain Management

BERND HAKE

(from March 1, 2016)
Eningen, Germany

Responsible for

Own Retail, Wholesale, Global Merchandising

INGO WILTS

(from August 15, 2016)
Amsterdam, Netherlands

Responsible for

Creative Management, Brand Management, License Management, PR Fashion, Global Advertising

CLAUS-DIETRICH LAHRS

(till February 29, 2016)
Stuttgart, Germany

Chairman of the Managing Board

Responsible for

**Sales, Own Retail,
Communications, Licenses**

CHRISTOPH AUHAGEN

(till April 22, 2016)
Stuttgart, Germany

Responsible for

**Creative Management,
Brand Management,
Sourcing and Production**

REPORT OF THE SUPERVISORY BOARD

Dear Readers,

Against the backdrop of a global economy with its complex developments which are frequently difficult to predict, the Supervisory Board's control and advisory functions arising from law, the Company's Articles of Association and the Bylaws assume particular importance. Accordingly, the Supervisory Board continued to perform its duties with the utmost care in fiscal year 2016, advising the Managing Board in close collaboration based on mutual trust and monitoring its management activities.

In written and oral reports, the Managing Board informed us regularly, with minimum delay and comprehensively on all matters of relevance for HUGO BOSS AG and the Group companies pertaining to strategy, planning, business performance, the risk situation and compliance and fulfilled its disclosure obligations. In this connection, monitoring and control duties particularly focused on the relevant annual financial results. Developments leading to any deviations in the actual course of business from forecasts and targets were explained in detail to the Supervisory Board and reviewed on the basis of the documents presented. The Chairman of the Audit Committee and I maintained close and regular dialog with the Managing Board. We were kept informed of material developments and decisions on which reports were submitted at the following Supervisory Board and Committee meeting at the latest. In addition, the Managing Board and the Supervisory Board coordinated the Company's strategic orientation.

All members of the Supervisory Board had at all times sufficient opportunity to critically review the Managing Board's reports and proposals and to contribute their own ideas in the Committees and in the meetings of the Supervisory Board. If necessary, approvals were issued only after requesting clarification from the Managing Board and extensively discussing the matter with the members of the Managing Board. In urgent cases, the Supervisory Board passed resolutions by way of circulation. The Supervisory Board was directly involved at an early stage in all decisions of fundamental significance to the Company.

SUPERVISORY BOARD MEETINGS IN 2016 AND MAIN TOPICS

In the 2016 reporting year, a total of six Supervisory Board meetings were held in February, March, April, May, September and December. The meeting in September was a two-day meeting. With the exception of one ordinary meeting of the Supervisory Board, which one member was unable to attend in person due to other commitments, the meetings of the Supervisory Board were attended by all members in 2016.

01|01 PARTICIPATION IN MEETINGS OF THE FULL SUPERVISORY BOARD AND ITS COMMITTEES

Member	Number of meetings	Attendence meetings	Attendance rate[1]
Michel Perraudin, Chairman	24	24	100%
Antonio Simina, Deputy Chairman	25	23	92%
Tanja Silvana Grzesch	7	7	100%
Anita Kessel	9	9	100%
Kirsten Kistermann-Christophe	6	6	100%
Fridolin Klumpp	11	11	100%
Monika Lersmacher (till July 31, 2016)	5	5	100%
Gaetano Marzotto	6	6	100%
Luca Marzotto	19	19	100%
Sinan Piskin	20	20	100%
Axel Salzmann	6	5	83%
Martin Sambeth (from August 01, 2016)	2	2	100%
Hermann Waldemer	12	12	100%

[1] Attendance rate = Attended meetings (by phone or in person).

The meeting of the Supervisory Board in March 2016 focused on the annual financial statements of HUGO BOSS AG and of the HUGO BOSS Group as of 31 December, 2015, the audit report prepared by the auditors and the dependent company report. At this meeting, the annual financial statements of HUGO BOSS AG as of December 31, 2015 were approved and ratified, and the consolidated financial statements of the HUGO BOSS Group were also approved. Furthermore, the Supervisory Board's report to the Annual Shareholders' Meeting was discussed and adopted, as were – after the review of the independence of the proposed auditor for fiscal year 2016 – the proposals for the adoption of resolutions at the Annual Shareholders' Meeting of HUGO BOSS AG on May 19, 2016.

On September 26 and 27, 2016, the Supervisory Board held a two-day meeting for extensive discussion of the corporate strategy up to 2020, a detailed presentation of the Group's organizational structure and the development of its sustainability activities.

At its meeting in December 2016, the Supervisory Board discussed in detail the results of its efficiency review, deliberated on and approved the declaration of compliance with the German Corporate Governance Code for 2016, discussed the 2017 budget and approved the internal audit planning for 2017.

The main topics in the year under review included the changes to the Managing Board: with effect from February 29, 2016, Mr. Claus-Dietrich Lahrs, stood down from his positions as Chairman of the Managing Board and Chief Executive Officer (CEO) and member of the Managing Board of HUGO BOSS AG. At its meeting on February 26, 2016, the Supervisory Board appointed Mr. Bernd Hake as a member of the Managing Board (Chief Sales Officer) of HUGO BOSS AG with effect from March 1, 2016. In addition, Mr. Christoph Auhagen stood down from his position as a member of the Managing Board of HUGO BOSS AG with effect from April 22, 2016.

At its meeting of May 19, 2016, the Supervisory Board appointed the former CFO, Mr. Mark Langer, as Chairman of the Managing Board and Chief Executive Officer (CEO) of HUGO BOSS AG with effect from May 19, 2016.

Lastly, at its meeting of April 22, 2016 and in a resolution passed on August 8, 2016, the Supervisory Board appointed Mr. Ingo Wilts as a member of the Managing Board (Chief Brand Officer) of HUGO BOSS AG with effect from August 15, 2016.

The development of sales and earnings, investment planning, individual investment projects and the current risk situation of the Company were discussed regularly at the Supervisory Board meetings and approved where necessary. In addition, the Supervisory Board dealt mainly with the Group's own retail activities, in particular the planned store closures, and cost planning, compliance issues and the German Corporate Governance Code.

CHANGES TO THE SUPERVISORY BOARD

Ms. Monika Lersmacher stepped down from the Supervisory Board with effect from July 31, 2016. Mr. Martin Sambeth was appointed by the court as an employee representative to the Supervisory Board with effect from August 1, 2016.

At the Supervisory Board meeting of September 26, 2016, Ms. Tanja Silvana Grzesch was elected as the successor to Ms. Monika Lersmacher on the Mediation Committee of the Supervisory Board.

COMMITTEES OF THE SUPERVISORY BOARD AND THEIR WORK IN 2016

The Supervisory Board has set up a total of five committees in order to improve the efficiency of its work: an Audit Committee, a Working Committee, a Personnel Committee, a Nomination Committee and a Mediation Committee as required by law. They prepare proposals and matters for discussion by the full Supervisory Board. To the extent permitted by law, the Supervisory Board's decision-making authority was transferred to the Committees. The Committee chairpersons reported in detail on the work of their respective Committee at the following meeting of the Supervisory Board.

The **Audit Committee** met four times in fiscal year 2016. The main subjects of its meetings were the financial reporting of the Company and the Group with respect to the annual, half-yearly and quarterly financial statements and reports, the audit of the separate and consolidated financial statements, the risk monitoring system and the risk management system, the internal control systems and compliance issues.

The **Personnel Committee** held 11 meetings, at which it focused on the changes to the Managing Board. In addition, the Personnel Committee handled the preparations for the target agreements on behalf of the Managing Board and reviewed the achievement of the targets.

The **Working Committee** held two meetings in the fiscal year at which it discussed the development of sales and earnings in the Group's own retail business, preparations for the strategy meeting, the change to the Supervisory Board's bylaws and preparations for the Annual Shareholders' Meeting.

The **Mediation Committee** set up in accordance with Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Co-determination Act] did not meet in the past fiscal year. Likewise, it was not necessary for the Nomination Committee to be convened in the year under review.

As Ms. Monika Lersmacher stepped down from her position as a member of the Supervisory Committee with effect from July 31, 2016, the **employee representatives** on the Supervisory Board met once in fiscal year 2016 to discuss the topic of female representation and decided at their meeting of July 19, 2017 to retroactively withhold their consent to the fulfillment of the gender quota in overall terms (Sec. 96 (2) sentence 5 AktG ["Aktiengesetz": German Stock Corporation Act]) pursuant to Sec. 96 (2) AktG. The gender quota pursuant to Sec. 96 (2) AktG is henceforth to be fulfilled separately for shareholder representatives and employee representatives. Following the appointment of Mr. Martin Sambeth as the successor to Ms. Lersmacher as a member of the Supervisory Board of HUGO BOSS AG with effect from August 1, 2016, the gender quota was fulfilled for the employee representatives, as two of the six employee representatives are women (Ms. Tanja Silvana Grzesch and Ms. Anita Kessel). The gender quota is no longer fulfilled for the shareholder representatives, as only one woman (Ms. Kirsten Kistermann-Christophe) was elected. Pursuant to Sec. 96 (2) sentence 5 AktG, this does not, however, render the composition of the shareholder representatives' side invalid. It must be ensured that the gender quota is fulfilled on the shareholder representatives' side at the next election.

CORPORATE GOVERNANCE

Last year, the Supervisory Board also dealt with new developments in the corporate governance regulations at the Company. In December 2016, the Managing Board and the Supervisory Board issued a new Declaration of Compliance pursuant to Sec. 161 (1) Sentence 1 AktG on compliance with the recommendations of the German Corporate Governance Code at HUGO BOSS AG. The combined report on corporate governance at the Company in accordance with No. 3.10 of the German Corporate Governance Code and the Corporate Governance Declaration can be found on page 18. As in previous years, the annual review of the efficiency of the Supervisory Board's activities, as recommended by the German Corporate Governance Code, was performed using a standardized, comprehensive questionnaire. The outcome was discussed and analyzed in detail at the Supervisory Board meeting on December 7, 2016, where the Supervisory Board came to a positive conclusion.

No conflicts of interest relating to Managing Board or Supervisory Board members arose in 2016 that had to be disclosed to the Supervisory Board immediately and about which the Annual Shareholders' Meeting had to be informed in accordance with the German Corporate Governance Code.

AUDIT OF THE 2016 ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of HUGO BOSS AG and the consolidated financial statements for fiscal year 2016 and the combined management report for HUGO BOSS AG and the Group for fiscal year 2016 prepared by the Managing Board were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart, together with the accounting records. The corresponding audit engagement had been awarded by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual Shareholders' Meeting held on 19 May, 2016. This included an agreement with the auditors to inform the chair of the Audit Committee without delay during the audit of any grounds for disqualification or partiality that could not be immediately rectified. It was also agreed that the external auditor is obliged to report on any findings or events arising during the performance of the audit that are of importance to the duties of the Supervisory Board. The auditors were furthermore required to inform the Supervisory Board or note in the audit report if any facts were ascertained during the audit that would result in the declaration submitted by the Managing Board and the Supervisory Board in accordance with Sec. 161 (1) Sentence 1 AktG. not being correct. The auditors did not issue any such reports in the reporting year. In addition, the Supervisory Board obtained the auditors' declaration of independence in accordance with No. 7.2.1 of the German Corporate Governance Code and Article 6 (2) (a) of the regulation (EU) No 537/2014 and verified the auditor's independence. The possibility of engaging the auditors to perform non-audit services was also discussed.

The consolidated financial statements of HUGO BOSS AG were prepared in accordance with Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code] on the basis of the International Financial Reporting Standards (IFRSs) as adopted by the EU. The auditors rendered an unqualified audit opinion on both the separate and consolidated financial statements including the combined management report for HUGO BOSS AG and the Group.

The Supervisory Board had at its disposal the audit records and the Managing Board's proposal for the appropriation of profit as well as the two audit reports from the external auditors. These were first discussed and reviewed in detail by the Audit Committee and then by the entire Supervisory Board in the presence of the auditors, who reported on the findings of their audit. The auditors commented in detail on the net assets, financial position and results of operations of the Company and the Group. The auditors further stated that there were no material weaknesses in the internal control system and risk management system with regard to the accounting process. They also reported that there were no circumstances that gave reason for concern about any partiality on their part. Finally, they reported on services that they provided in addition to their audit work. Answers were given to the questions posed by the Supervisory Board and its committees on that occasion and the documents relating to the financial statements were examined in detail with the auditors and discussed and reviewed by the Supervisory Board and the Audit Committee. The audit reports were discussed with the auditors and the related questions were answered by the auditors. The auditors' findings were subsequently approved. After its final review, the Supervisory Board does not raise any objections.

At its financial review meeting on March 8, 2017, the Supervisory Board therefore approved the separate financial statements, the consolidated financial statements and the combined management report for HUGO BOSS AG and the Group for fiscal year 2016. The financial statements of HUGO BOSS AG for fiscal year 2016 have therefore been ratified in accordance with Sec. 172 AktG.

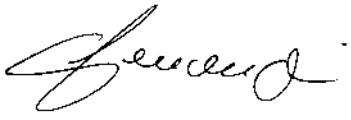
Finally, at its meeting on March 8, 2017, the Supervisory Board approved the Managing Board's proposal for the appropriation of profit. In this context the Supervisory Board held detailed discussions on the liquidity situation of the Company, the financing of planned investments and the effects on the capital market. In the course of these discussions, the Supervisory Board came to the conclusion that the proposal was in the best interests of both the Company and its shareholders.

ACKNOWLEDGMENTS

On behalf of the Supervisory Board, I wish to thank all the members of the Managing Board and the employees around the world for their high level of personal dedication and great commitment. I also wish to thank the employee representatives of HUGO BOSS AG for their constructive collaboration in fiscal year 2016.

Metzingen, March 8, 2017

The Supervisory Board



Michel Perraudin
Chairman

SUPERVISORY BOARD

MICHEL PERRAUDIN Hergiswil, Switzerland	Management Consultant Chairman of the Supervisory Board
ANTONIO SIMINA Metzingen, Germany	Tailor/Chairman of the Works Council HUGO BOSS AG, Metzingen, Germany Deputy Chairman of the Supervisory Board Employee representative
TANJA SILVANA GRZESCH Sonnenbuehl, Germany	Chairperson and Treasurer of the German Metalworkers´ Union (IG Metall) Reutlingen-Tuebingen, Reutlingen, Germany Employee representative
ANITA KESSEL Metzingen, Germany	Administrative Employee HUGO BOSS AG, Metzingen, Germany Employee representative
KIRSTEN KISTERMANN-CHRISTOPHE Oberursel, Germany	Managing Director Société Générale S.A., Frankfurt/Main, Germany
FRIDOLIN KLUMPP Caslano, Switzerland	Senior Vice President Global Human Resources HUGO BOSS AG, Metzingen, Germany Employee representative
GAETANO MARZOTTO Milan, Italy	Chairman of the Supervisory Board Gruppo Santa Margherita S.p.A., Fossalta di Portogruaro, Italy
LUCA MARZOTTO Venice, Italy	Chief Executive Officer Zignago Holding S.p.A., Fossalta di Portogruaro, Italy
SINAN PISKIN Metzingen, Germany	Administrative Employee HUGO BOSS AG, Metzingen, Germany Employee representative

AXEL SALZMANN Großhansdorf, Germany	Chief Financial Officer Bilfinger SE, (till September 30, 2016), Mannheim, Germany Kite Holding Germany GmbH, (from October 1, 2016) Duesseldorf, Germany
MARTIN SAMBETH (from August 1, 2016) Tiefenbronn, Germany	Secretary of the German Metalworkers' Union IG Metall Area Headquaters Baden-Wuerttemberg, Stuttgart, Germany Employee representative
MONIKA LERSMACHER (till July 31, 2016) Kornwestheim, Germany	Secretary of the German Metalworkers' Union IG Metall Area Headquaters Baden-Wuerttemberg, Stuttgart, Germany Employee representative
HERMANN WALDEMER Blitzingen, Switzerland	Consultant

SUPERVISORY BOARD COMMITTEES

Working Committee	**Michel Perraudin (Chairman)** Anita Kessel Luca Marzotto Sinan Piskin Antonio Simina Hermann Waldemer
Nomination Committee	Michel Perraudin Gaetano Marzotto
Personnel Committee	**Michel Perraudin (Chairman)** Luca Marzotto Sinan Piskin Antonio Simina
Audit Committee	**Hermann Waldemer (Chairman)** Fridolin Klumpp Michel Perraudin Antonio Simina
Mediation Committee (in accordance with Sec. 27 (3) Mitbestimmungsgesetz [Co-Determination Act])	**Michel Perraudin (Chairman)** Monika Lersmacher (till July 31, 2016) Gaetano Marzotto Antonio Simina Tanja Silvana Grzesch (from September 26, 2016)

CORPORATE GOVERNANCE REPORT INCLUDING THE CORPORATE GOVERNANCE STATEMENT

PURSUANT TO SECTION 3.10 OF THE GERMAN CORPORATE GOVERNANCE CODE

HUGO BOSS is convinced that good and transparent corporate governance which adheres to German and international standards is a key factor in the Group's long-term success. Corporate governance is therefore part of the shared values of HUGO BOSS and a requirement that extends to every area of the Company. The Managing Board and Supervisory Board consider themselves duty-bound to secure the Company's continuation as a going concern and sustainable value added through responsible corporate governance that is geared to the long term. HUGO BOSS wants to justify the trust placed in it by investors, business partners, employees and the public and continue to enhance the Group's corporate governance.

In fiscal year 2016, the Managing Board and Supervisory Board closely examined compliance with the requirements of the German Corporate Governance Code (GCGC). As a consequence, it was possible to issue the declaration of compliance dated December 2016, which is included in this report (page 27) and published on the website of HUGO BOSS AG together with past declarations of compliance. Apart from the exceptions discussed there, HUGO BOSS AG complies with the recommendations of the Code as amended May 5, 2015, published in the Bundesanzeiger [German Federal Gazette] on June 12, 2015. Details are contained in the following report by the Managing Board and Supervisory Board.

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 in which the Managing Board and Supervisory Board work. It can also be accessed at **www.group.hugoboss.com/Investor-Relations/Corporate-Governance.**

CORPORATE GOVERNANCE PRACTICES

As an international Group with around 7,700 points of sale in 127 countries, HUGO BOSS is aware of its corporate responsibility to its employees, society, and the environment. Handling the core business responsibly is an important prerequisite for ensuring competitiveness and long-term success. In other words, our employees not only apply the very highest quality standards to our products and brands, but also consider social and ecological factors at every point along the value chain. Our corporate responsibility is divided into the key areas stakeholders, environment, employees, partners, products and society. HUGO BOSS always acts in compliance with the current regulatory frameworks as well as with the HUGO BOSS internal guidelines.

Further information can be found in the "Sustainability" section of our corporate website.

Good corporate governance is one of the fundamental principles of the HUGO BOSS Group and a crucial component for long-term success. In addition to responsible management of the Company for the benefit of employees, customers, and shareholders, good corporate governance also means appreciating and strengthening the confidence placed in the Company. For this reason, business activities focus on sustainably increasing enterprise value.

CORPORATE COMPLIANCE

HUGO BOSS AG and the Group companies operate in many different countries and regions and therefore in different legal systems. Corporate compliance comprises measures to ensure adherence to legal and official regulations, the Company's internal guidelines as well as codes which the Group has undertaken to observe. Corporate compliance and its observance by Group companies is seen as a major responsibility of the Managing Board at HUGO BOSS. This includes antitrust and anti-corruption regulations as well as provisions under capital market laws. HUGO BOSS AG expects all employees to act in a legally unobjectionable way in day-to-day business operations.

A compliance department that reports directly to the Chief Executive Officer as Chief Compliance Officer supports the Managing Board's monitoring of effective compliance management. The central compliance office and compliance officers in the Group companies ensure that the compliance program is implemented throughout the Group and that it has been continually enhanced since its introduction. The Audit Committee is regularly informed about the compliance office's activities.

To ensure the legally unobjectionable conduct of employees and establish a basis for this, HUGO BOSS has summarized principles of conduct applicable throughout the Group in a code of conduct and more in-depth corporate guidelines. The code of conduct and the corporate guidelines mainly focus on rules on conduct in competition, on avoiding conflicts of interest, on the appropriate handling of Company information, on ensuring fair and respectful working conditions and on anti-corruption. HUGO BOSS does not tolerate willful misconduct or persistent infringements of the code of conduct.

Employees are familiarized on an ongoing basis with the rules of the code of conduct and the corporate guidelines and thus made aware of the importance of observing compliance rules. To this end, HUGO BOSS runs classroom training sessions and has also set up a global e-learning program that the employees concerned have to complete regularly. The e-learning program has also been introduced at all HUGO BOSS subsidiaries.

Employees can obtain support and advice on issues concerning legally correct conduct from their superiors or the Compliance Officer. HUGO BOSS has also established a global ombudsman system as a supplementary reporting channel. Employees and third parties such as suppliers or customers can confidentially notify an ombudsman, whose contact details are given on the Company's website, if there are indications of fraud, infringements of antitrust law or breaches of compliance guidelines. It is also possible to remain anonymous if desired.

CAPITAL MARKET COMMUNICATION

HUGO BOSS reports regularly and in a timely manner on the Company's business development and on key strategic and operational initiatives. The Group's investor relations activities include regular dialog with institutional investors, financial analysts and private shareholders. In addition to the annual press briefing and an analysts' conference on the annual results, conference calls are held with financial analysts and investors when the reports for the first quarter, the first half and the first nine months of the year are published. The Group's strategy and relevant developments are discussed in detail at an annual Investor Day. In addition to special information events at which the Group presents itself to private investors, the Annual Shareholders' Meeting offers the opportunity to obtain information on the development of the Group quickly, comprehensively and effectively, either by attending the meeting or online. All key information and publications can always be accessed on the Group's website at group.hugoboss.com.

COOPERATION, COMPOSITION AND ACTIVITIES OF THE MANAGING BOARD AND SUPERVISORY BOARD

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

The Managing Board and Supervisory Board cooperate closely for the benefit of the Group. Their shared objective is to increase the enterprise value in the long term. The Managing Board regularly informs the Supervisory Board in a timely manner and in detail on issues of importance for the Group concerning strategy, planning, business development, the risk position, risk management and compliance. Deviations from targets and budgets are explained to the Supervisory Board and its committees. The strategic alignment and further development of the Group are also discussed and coordinated with the Supervisory Board.

When making decisions and in performing their duties for HUGO BOSS, members of the Managing Board and Supervisory Board are not permitted to pursue their personal interests or grant other persons unjustified advantages. No members of the Managing Board or Supervisory Board had any conflicts of interest in fiscal year 2016. The offices held by the Managing Board and Supervisory Board members in statutory supervisory boards or comparable oversight committees of commercial organizations in Germany and other countries are listed in the notes under "Supervisory and Managing Board" (page 208). No member of the Managing Board sits on more than three supervisory boards of listed companies that are not members of the Group. The same applies to members of the Supervisory Board who sit on the managing boards of other listed companies. Related party disclosures are provided in the notes to the consolidated financial statements on page 203 ff.

THE MANAGING BOARD

The Managing Board comprises the chairman and the members with equal rights, whose duties cover specific corporate functions. There are three members of the Managing Board at the end of fiscal year 2016.

The HUGO BOSS Group is managed by the Managing Board of the parent company HUGO BOSS AG, in which all of the Group management functions are bundled. The Managing Board's core duties include defining the corporate strategy (particularly the brand and distribution strategy), corporate finance, risk management, decisions on the collections and the management of the sales network. In addition, it is responsible for preparing the annual, consolidated and interim financial statements and for establishing and monitoring a risk management system.

The bylaws of the Managing Board govern the allocation of duties to its members as well as the procedures to be adopted for passing resolutions. In particular, they also define disclosure and reporting duties as well as those matters requiring the approval of the Supervisory Board.

The German Corporate Governance Code also prescribes that the Managing Board must be committed to diversity when filling management positions in the Group and specifically that women must be adequately represented. The Managing Board is committed to this objective. It already monitors the diversity of the workforce and will continue to do so in future. On September 22, 2015, the Managing Board acting in accordance with the statutory provisions set a target of at least 30% of women in each of the two management levels below the Managing Board to be achieved by June 30, 2017. **→ Employees**

THE SUPERVISORY BOARD

In accordance with the German Corporate Governance Code, HUGO BOSS attaches a high level of importance to the independence of members of the Supervisory Board. The members of the Supervisory Board of HUGO BOSS have the knowledge, skills, and professional experience necessary for the respective committees. The Supervisory Board currently includes three women. Until Ms. Lersmacher resigned as an employee representative with effect from July 31, 2016, the gender quota pursuant to Sec. 96 (2) AktG ["Aktiengesetz": German Stock Corporation Act] had been fulfilled in overall terms, with a total of four women (including three employee representatives). The employee side opposed the concept of overall fulfillment in its resolution of July 25, 2016, which means that from now on the 30% gender quota is to be fulfilled separately for shareholder representatives and employee representatives. The two female employee representatives fulfill the gender quota on the employee representatives' side. As a result of the aforementioned decision, the gender quota for the shareholder representatives is no longer fulfilled, as only one woman has been elected. It must be ensured that the gender quota is fulfilled on the shareholder representatives' side at the next election.

None of the current members of the Supervisory Board previously held a Managing Board position within the Group. There were also no advisory or other service agreements in place between members of the Supervisory Board and the Group in the reporting year.

Acting under Sec. 111 (5) AktG, on September 23, 2015, the Supervisory Board defined a target for the proportion of women on the Managing Board, which is to be achieved by June 30, 2017. This target has yet to be attained. Several candidates of both genders were included in the selection process for the appointment of members of the Managing Board, which the Supervisory Board undertook following preparations by the Personnel Committee in 2016. The two newly appointed members and the new chairman were eventually chosen on the basis of their professional expertise.

In accordance with the recommendation of the German Corporate Governance Code, the Supervisory Board has also set specific targets for its own composition and for the composition of the Managing Board. The Supervisory Board should have at least two non-German members, none of the members are permitted to have potential conflicts of interest and none of the Supervisory Board members may be older than 69 years of age when they are elected. In addition, the Supervisory Board has set itself a specific target as regards the number of "independent" members of the Supervisory Board within the meaning of the German Corporate Governance Code: Accordingly, of the twelve members of the Supervisory Board, at least eight members, including the six employee representatives, will have to be independent in the future. A standard maximum period of membership of the Supervisory Board has been dispensed with as HUGO BOSS takes the view that a predefined maximum period of membership is not appropriate as it may prevent the Company from benefiting from the expertise of long-standing members of the Supervisory Board.

In addition, the Supervisory Board examines the annual and consolidated financial statements and reports on the results of this audit to the Annual Shareholders' Meeting.

The Supervisory Board has adopted bylaws which govern its duties and responsibilities as well as the procedures for convening, preparing and chairing meetings and for passing resolutions. In addition, the bylaws stipulate equal representation in the composition of all Committees.

1. WORKING COMMITTEE

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

2. PERSONNEL COMMITTEE

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

3. AUDIT COMMITTEE

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

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

- To examine the quarterly reports (interim reports) and discuss them with the Managing Board;
- To prepare the Supervisory Board's proposal to the Annual Shareholders' Meeting concerning the appointment of a statutory auditor, and in particular to satisfy itself of the statutory auditor's independence and to examine the additional services which it provides;
- To engage the statutory auditor and to sign the corresponding fee agreement for the auditing of the annual financial statements and the consolidated financial statements following consultation with the Managing Board on the basis of the resolution passed at the Annual Shareholders' Meeting, including the determination of the key audit points and the auditor's reporting duties towards the Supervisory Board;
- To satisfy itself that the statutory provisions and internal company policies have been complied with ("compliance").

The Supervisory Board satisfied itself of the independence of the members of the Audit Committee representing the shareholders and of the Chairman of the Audit Committee, Hermann Waldemer. Hermann Waldemer also possesses particular knowledge of and experience in the application of accounting principles and internal control processes. For this reason, he is also a designated Financial Expert.

4. NOMINATION COMMITTEE

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

5. MEDIATION COMMITTEE

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

RISK MANAGEMENT AND RISK CONTROLLING

Responsible handling of risks by the Group constitutes a key element of good corporate governance. The systematic risk management anchored in value-based Group management permits the Group to identify and assess risks at an early stage and to optimize risk positions using appropriate measures. Ensuring appropriate risk management and controlling in the Group is a key task. The Audit Committee set up by the Supervisory Board regularly monitors the financial reporting process, the effectiveness of the systems of internal control, risk management and internal audit, and the audit of the financial statements. The external auditor is also involved in the audit. The systems in place are continually enhanced and adapted to changing circumstances. By their nature, however, they cannot provide complete protection from losses resulting from business transactions or fraud. More information on systems of internal control, risk management and audit are provided in the "Risk report" section on page 105.

FINANCIAL REPORTING AND AUDIT OF THE FINANCIAL STATEMENTS

Since fiscal year 2001, HUGO BOSS AG's financial reports have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The Audit Committee set up by the Supervisory Board regularly monitors the financial reporting process and the audit of the financial statements. The audit has been performed by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, since fiscal year 2012. Mr. Martin Matischiok has signed the auditors' report since December 31, 2012 and Ms. Lea Biller since December 31, 2014. It was agreed with the auditors with respect to the reporting year that the chair of the Audit Committee would be informed without delay during the audit of any grounds for disqualification or partiality that could not be immediately rectified. It was also agreed that the external auditor is obliged to report on any findings or events arising during the performance of the audit that are of importance to the duties of the Supervisory Board. In addition, it was agreed that the external auditor must inform the Supervisory Board and indicate in its audit report if findings are made during the audit that are in contravention of the declaration of compliance made by the Managing Board and Supervisory Board pursuant to Sec. 161 AktG. The Supervisory Board also obtained a declaration of independence from the external auditor in accordance with No. 7.2.1 of the German Corporate Governance Code and verified the independence of the external auditor; the declaration also encompassed the engagement of the external auditor for non-audit services.

PUBLICATIONS WITHIN THE MEANING OF SEC. 15A WPHG ["WERTPAPIERHANDELSGESETZ": SECURITIES TRADING ACT] AND ART. 19 OF THE MARKET ABUSE REGULATION

Transactions conducted with shares of HUGO BOSS AG by persons within the meaning of Sec. 15a WpHG ["Wertpapierhandelsgesetz": Securities Trading Act] and, since its entry into force, Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 are also disclosed on the corporate website.

As of 31 December, 2016, the combined number of HUGO BOSS AG shares held by all members of the Managing Board and Supervisory Board accounted for less than 1% of the shares issued by the Group.

COMPENSATION OF THE MANAGING BOARD AND SUPERVISORY BOARD

The compensation report summarizes the principles underlying the total compensation of the members of the Managing Board and Supervisory Board of HUGO BOSS AG. It also explains the structure and amount of compensation paid to members of the Managing Board. In addition, it describes the principles and the amount of compensation of the Supervisory Board members. The compensation report is part of the management report.

→ Compensation report, p. 90

DECLARATION OF COMPLIANCE

In accordance with Sec. 161 (1) Sentence 1 AktG the Managing Board and Supervisory Board of HUGO BOSS AG have to issue an annual declaration of compliance stating whether the recommendations of the government commission for the German Corporate Governance Code as published in the Bundesanzeiger [German Federal Gazette] were complied with and whether they will be complied with in the future. The recommendations that were not or will not be complied with in the future also have to be indicated stating the reason for non-compliance. The German Corporate Governance Code as most recently revised on May 5, 2015 was published in the Bundesanzeiger on June 15, 2015. Accordingly, the Managing Board and Supervisory Board issued the following declaration of compliance in December 2016:

"Declaration of compliance

DECLARATION OF THE MANAGING BOARD AND SUPERVISORY BOARD OF HUGO BOSS AG PURSUANT TO SECTION 161 AKTG (GERMAN STOCK CORPORATION ACT)
HUGO BOSS AG, Metzingen, Securities ID A1PHFF

The Managing Board and Supervisory Board of HUGO BOSS AG herewith declare pursuant to section 161 para. 1 sentence 1 AktG (German Stock Corporation Act) that since the Compliance Declaration of December 2015 the recommendations of the Government Commission "German Corporate Governance Code" in the version as amended on May 5, 2015 – officially published in the Federal Gazette on June 12, 2015 – have been and are complied with except for:

- Deviating from the recommendation in section 3.8 sentence 5 GCGC, the D&O- (Directors' & Officers'-)insurance for members of the Supervisory Board did not contain a deductible until December 31, 2015 because HUGO BOSS AG is of the opinion that a deductible is no appropriate means for further improving the sense of responsibility. Since January 1, 2016, the D&O insurance for members of the Supervisory Board contains a deductible.

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

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

- Deviating from the recommendation in section 4.2.5. sentence 5 and 6 GCGC, certain information on the compensation of Executive Board members has not been included, nor have the model tables provided for this purpose been utilized. It seems doubtful as to whether the largely repetitive provision of identical information in two additional tables contributes to the transparency or the understandability of the Compensation Report according to the German Corporate Governance Code).

- Deviating from the recommendation in section 5.4.1 sentence 2 GCGC, the Supervisory Board has not specified a regular limit of length of membership for the members of the Supervisory Board. The company can also benefit from the experience of long-term Supervisory Board members. A regular limit of length of membership which is specified in advance is therefore not appropriate.

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

- Deviating from the recommendation in section 5.4.6 sentence 5 GCGC the compensation of the members of the Supervisory Board is not reported individually in the notes nor in the management report. Also, payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided individually, in particular, advisory or agency services, are not listed on an individual basis. The compensation paid to the members of the Supervisory Board is demonstrated in total in the notes. In the view of HUGO BOSS AG, individual reporting of compensation does not provide information relevant to the capital market.

Metzingen, December 2016"

HUGO BOSS – KEY SHARE DATA

01|02 HUGO BOSS – KEY SHARE DATA

	2016	2015
Number of shares	**70,400,000**	**70,400,000**
Thereof outstanding shares	69,016,167	69,016,167
Thereof own shares	1,383,833	1,383,833
Share price in EUR[1]		
Last (December 31)	58.13	76.60
High	73.68	120.00
Low	46.44	74.38
Market capitalization in EUR million (December 31)	**4,092**	**5,393**
Earnings per share in EUR	**2.80**	**4.63**
Price-earnings ratio[2]	**20.7**	**16.6**
Dividend per share in EUR	**2.60[3]**	**3.62**
Dividend yield in %[2]	**4.5[3]**	**4.7**
Amount distributed in EUR million	**179.4[3]**	**249.8**
Payout ratio in %[4]	**93[3]**	**78**

[1] Xetra.
[2] Based on closing price (December 31).
[3] 2016: Dividend proposal.
[4] Based on net income attributable to shareholders.

01|03 ISIN, WKN AND TICKER SYMBOL HUGO BOSS SHARE

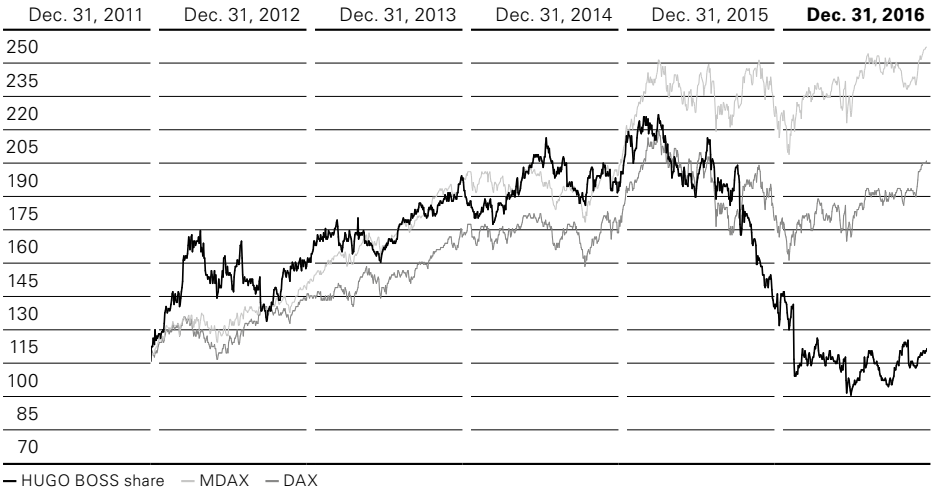
ISIN	DE000A1PHFF7
WKN	A1PHFF
Ticker symbol	BOSS

Stock exchanges: Xetra, Frankfurt/Main, Stuttgart, Duesseldorf, Hamburg, Munich, Hanover, Berlin/Bremen.

HUGO BOSS ON THE CAPITAL MARKET

German equity markets recorded solid growth during the course of the year despite strong price fluctuations. HUGO BOSS shares could not keep pace with the overall market, even though in the second half of the year they gained significant ground on the lows seen during the summer.

01|04 SHARE PRICE PERFORMANCE (Index: December 31, 2011 = 100)



Political uncertainties weighed heavily on share prices in 2016

At the beginning of the year, disappointing economic data from China and weak early indicators held back the German equity markets. Toward the end of the first quarter, share prices began to pick up again, caused by the ECB's decision to widen its expansive monetary and fiscal policy. In the first half of the year, the European economy and, in particular the German economy, benefited from favorable consumer confidence. The UK's vote to leave the European Union, however, caused significant price declines on European equity markets toward the end of June. The strong economic data development in the USA during the rest of the year was the push behind additional rises, which were bolstered further by the prospect of tax cuts and economic stimulus programs in the USA as a consequence of Donald Trump's election victory.

The **DAX** closed the year 7 % up on the final day of 2015. The **MDAX** rose 7 % in the same period.

Difficult industry environment and company-specific challenges hold back share price performance

The **HUGO BOSS share price** in 2016 was influenced by a generally difficult industry environment as well as company-specific challenges. The announcement in mid-February of a double-digit decline in earnings resulted in significant declines in the company's share price. In spring, however, the share price recovered some of the ground lost. The main reason behind this was the offer of a stable dividend and the presentation of a program of measures to secure the long-term growth of the Company. The Brexit vote as well as a generally difficult market environment in the premium and luxury goods industry put share prices under pressure once again in the middle part of the year. In October, however, prices rose significantly in expectation of the strategy being developed further, which was announced at an Investor Day. Uncertainties regarding the financial outlook for 2017 and beyond had a temporary downward effect. Toward the end of the year, though, share prices bounced back from their short setback in November. At the end of the reporting period, the share was trading at EUR 58.13, down 24 % on the end of the previous year (2015: EUR 76.60). Accordingly, the HUGO BOSS share declined more sharply than the industry average. The **MSCI World Textiles, Apparel & Luxury Goods Index**, which tracks the share price performance of companies operating in these sectors, retreated by about 1 % in 2016.

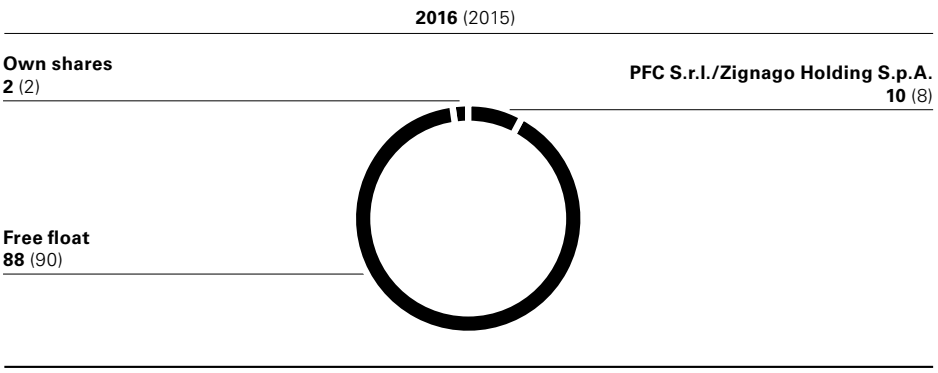
01|05 HUGO BOSS SHARE IN COMPARISON (Change in %)

	1 year	3 years	5 years	10 years
HUGO BOSS share	(24)	(44)	5	42
DAX	7	20	95	74
MDAX	7	34	149	136
MSCI World Textiles, Apparel & Luxury Goods	(1)	(8)	45	91

Biggest shareholder increases stake in HUGO BOSS

In June 2016, Zignago Holding S.p.A. and PFC S.r.l., which are themselves controlled by the Marzotto family, increased their share of voting rights in HUGO BOSS AG to 10 % from just over 7 %. Both companies have pooled their shares by way of a shareholder agreement. Tamburi Investment Partners S.p.A., which was also previously part of this agreement, has withdrawn from it. This means that, since then, 88 % of shares in the company have been classified as free float.

01|06 SHAREHOLDER STRUCTURE AS OF DECEMBER 31 (in % of share capital)



Number of own shares unchanged

HUGO BOSS AG still holds 1,383,833 of its own shares, which were purchased as part of a share buyback scheme between 2004 and 2007. This corresponds to a share of 1.97 % or EUR 1,383,833 of the share capital. ➔ **Legal disclosures**

No use was made in 2016 of the authorization made at the Annual Shareholders' Meeting in 2015 to acquire shares in the Company up to a share of no more than 10 % of the share capital outstanding on or before May 11, 2020.

Four notifications received regarding reportable securities transactions

Four notifications either to sell or to purchase HUGO BOSS AG securities in accordance with Sec. 15a WpHG ["Wertpapierhandelsgesetz": Securities Trading Act] were presented to the Company by the Managing Board and Supervisory Board in the reporting period from January 1 to December 31, 2016. These were published under "Financial Releases" in the Investor Relations section of the Group's website at group.hugoboss.com. In total, Members of the Managing Board and Supervisory Board together still hold less than 1 % of the shares issued by HUGO BOSS AG. ➔ **Corporate Governance Report**

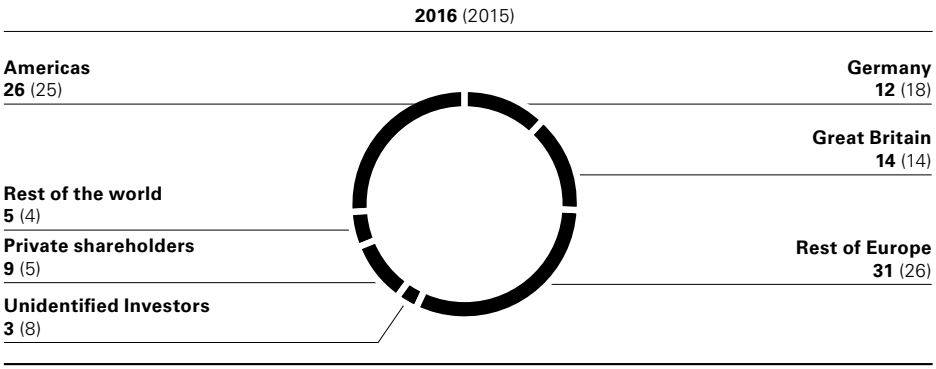
Several voting rights notifications received

The Company received several voting rights notifications from investors in the reporting period from January 1 to December 31, 2016. The Company published the original wordings of these notifications under "Financial Releases" in the Investor Relations section of the corporate website at group.hugoboss.com.

Amount of shares held by investors in Continental Europe increases

The Company conducts regular analyses of the shares held in free float in addition to the voting right notifications received with a view to addressing the institutional investors investing in HUGO BOSS in a more targeted manner. In comparison to earlier analyses, the proportion of investors identified in the analysis has increased substantially. The analysis reveals the changes in the shareholder structure during the course of the year. The amount of shares held by European investors outside Germany and Great Britain rose to 31 % of the free float (2015: 26 %). In contrast, the portion of shares held by institutional investors within Germany shrank to 12 % (2015: 18 %). There were no significant changes in Great Britain and the remaining regions.

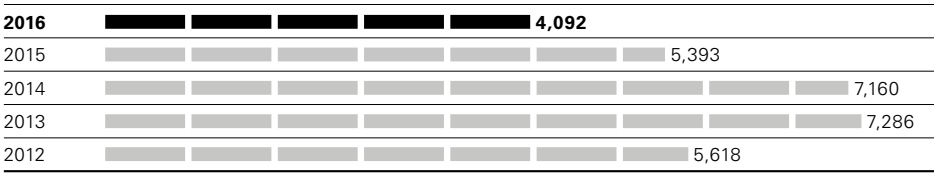
01|07 REGIONAL SPLIT OF INVESTOR BASE AS OF DECEMBER 31 (in % of free float)



Big increase in trading volume in 2016

At the end of December 2016, the HUGO BOSS share, which is listed in the MDAX, took 18th place in Deutsche Börse's ranking calculated on the basis of market capitalization adjusted for free float (December 31, 2015: 8th place). It ranked 4th by trading volume (December 31, 2015: 4th place). The weighting of the HUGO BOSS share in the MDAX at the end of December came to 2.0 % (December 31, 2015: 3.1 %). On average, 427,931 shares per day were traded on Xetra in 2016 (2015: 245,883).

01|08 MARKET CAPITALIZATION AS OF DECEMBER 31 (in EUR million)



Dividend of EUR 2.60 per share proposed

HUGO BOSS pursues a profit-based dividend policy that allows the shareholders to participate appropriately in the Group's earnings development. Between 60 % and 80 % of net income is to be paid to the shareholders on a regular basis. The Managing Board and the Supervisory Board intend to propose to the Annual Shareholders' Meeting on May 23, 2017, a dividend of EUR 2.60 per share for the fiscal year 2016 (2015: EUR 3.62). The proposal is equivalent to a payout ratio of 93 % of the consolidated net income attributable to the equity holders of the parent company in 2016 (2015: 78 %). On the one hand, the proposed dividend takes the decline in earnings in 2016 into account. On the other hand, the proposal reflects the unchanged strong cash flow, the Company's robust financial position, and the expenses related to planned store closures in 2016 which will not reoccur in 2017. Assuming that the shareholders approve the proposal, the dividend will be paid out on May 29, 2017. Based on the number of shares outstanding at year-end, the amount distributed will come to EUR 179 million (2015: EUR 250 million).

01|09 DIVIDEND PER SHARE (in EUR)

[1] 2016: Dividend proposal.

Transparent and open communication as a goal of Investor Relations work

For HUGO BOSS, good capital market and corporate communication means communicating current developments within the Group promptly and in a transparent manner. HUGO BOSS AG's Investor Relations website is an essential tool for achieving this as well as for regular personal dialog with national and international institutional and private investors. It features not only detailed information and key figures on the Group, but also webcasts of important presentations made by the Management Board.

CHAPTER
2

Combined Management Report

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Group Profile

COMBINED MANAGEMENT REPORT
GROUP PROFILE

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BUSINESS ACTIVITIES AND GROUP STRUCTURE

Positioning in the upper premium segment of the global apparel market

The HUGO BOSS Group is one of the market leaders in the upper premium segment of the global apparel market. It achieved sales of EUR 2.7 billion in the 2016 fiscal year and has just under 14,000 employees. The Company offers a comprehensive range of high-quality fashion as well as accessories in the womenswear and menswear segments under the BOSS and HUGO brands. The Group's portfolio consists of classic yet modern tailoring, elegant evening wear and leisure wear, shoes, leather accessories as well as licensed fragrances, eyewear, watches, children's fashion, home textiles and writing instruments.

Targeted brand communication increases the appeal of the brands

The HUGO BOSS Group has set itself the objective of continually increasing the appeal of its brands. To achieve this, it employs targeted marketing measures, increasingly in digital channels. To convey brand values such as dynamism, perfection and precision in an ideal way, the sponsorship activities of HUGO BOSS focus on premium sports such as golf, Formula 1, sailing and football. Sponsorship of cultural events is a further key area of the Group's brand communications, with the Group seeking to create common ground between art and fashion with respect to design, aesthetics and creativity. The Company also emphasizes these vital attributes through high-profile fashion events in the world's fashion capitals.

Long-standing collaboration with suppliers supplements in-house production

HUGO BOSS sources 20 % of its procurement volume internally. The Group also works with independent suppliers with enormous expertise. This collaboration mainly takes the form of long-standing partnerships. These suppliers are mostly in Eastern Europe and Asia. **→ Sourcing and production**

Sales activities globally focused

As a globally active group, the Company sells its collections in 127 countries around the world (2015: 125 countries), with Europe as the largest market accounting for 61 % of sales. Further important markets are the Americas (22 % of sales) and Asia (14 % of sales). Licensing business accounts for 3 % of sales. **→ Sales and Profit Development of the Business Segments**

Group's own retail business is the most important sales channel

HUGO BOSS has significantly expanded its own retail operations in recent years to respond to the needs of its customers in as individual a manner as possible. In fiscal year 2016 this distribution channel generated 62 % of Group sales (2015: 60 %). At the end of the year the Group operated 442 freestanding retail stores around the world (2015: 430). In addition, HUGO BOSS sells its collections in shops-in-shops in department stores and outlets. There is also a strong focus on e-commerce business and its links to bricks-and-mortar retail stores. Customers from a total of 11 countries – Germany, Great Britain, France, Spain, Italy, the Netherlands, Belgium, Austria, Switzerland, the U.S. and China – are able to order articles via the online store. The wholesale channel contributed 35 % to Group sales in fiscal year 2016 (2015: 38 %). Wholesale partners include department stores, specialist retailers, which are frequently family-run, franchisees and specialist online retailers. While department stores and specialist retailers sell HUGO BOSS products either in separate shop-in-shops or in a multibrand setting, franchise partners independently operate freestanding HUGO BOSS stores in accordance with the Group's specifications and operate mainly in small markets not addressed by the Group's own retail business. HUGO BOSS products can

be bought at around 6,600 wholesale points of sale (2015: 6,450 points of sale). Including its own freestanding stores, the Group has 7,700 points of sale (2015: 7,600 points of sale).

→ **Group Strategy, Group Earnings 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: hugoboss.com 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

As its parent company, HUGO BOSS AG in Metzingen, Germany, is responsible for the management of the Group. All the important management functions are centered there. As a German stock corporation, HUGO BOSS AG has a dual management and control structure. The Managing Board has overall responsibility for the strategy and management of the Group. The Supervisory Board monitors the management activities of the Managing Board and also advises it. Furthermore, in addition to HUGO BOSS AG, the HUGO BOSS Group is made up of 56 consolidated companies that hold sole responsibility for local business activities.

Regional alignment of organizational structure

The HUGO BOSS Group is regionally aligned, with its business segments divided into three regions – Europe including the Middle East and Africa, the Americas and Asia/Pacific. The Group's licensing business constitutes an additional operational area.

02|02 HUGO BOSS GROUP STRUCTURE

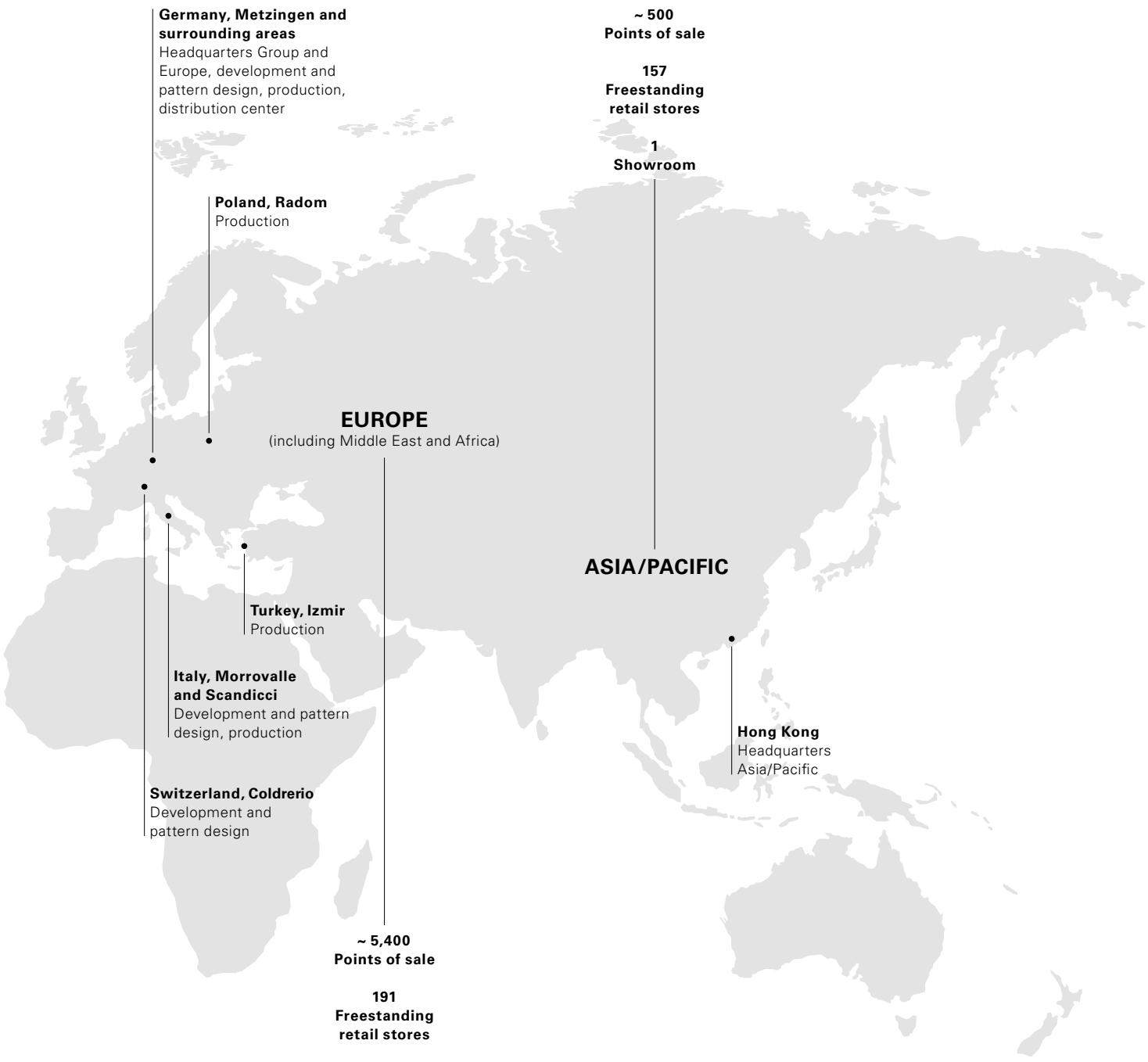
MANAGING BOARD

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

Markets implement Group strategy

The regional directors are responsible for implementing the Group's strategy in the applicable market environment. In particular, they are responsible for the regional adaptation of the distribution strategy in the Group's own retail business and wholesale business, as well as for the development of sales and earnings. This market-based structure strengthens customer focus, improves responsiveness to market trends and facilitates adjustment to market specifics. The direct reporting line to the Chief Sales Officer of HUGO BOSS AG ensures close alignment with the central functions and allows decisions to be made quickly.

02|03 KEY LOCATIONS/GLOBAL MARKET PRESENCE


Germany, Metzingen and surrounding areas
Headquarters Group and Europe, development and pattern design, production, distribution center
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
~ 5,400
Points of sale
191
Freestanding retail stores
10
Showrooms
~ 500
Points of sale
157
Freestanding retail stores
1
Showroom
ASIA/PACIFIC
Hong Kong
Headquarters Asia/Pacific

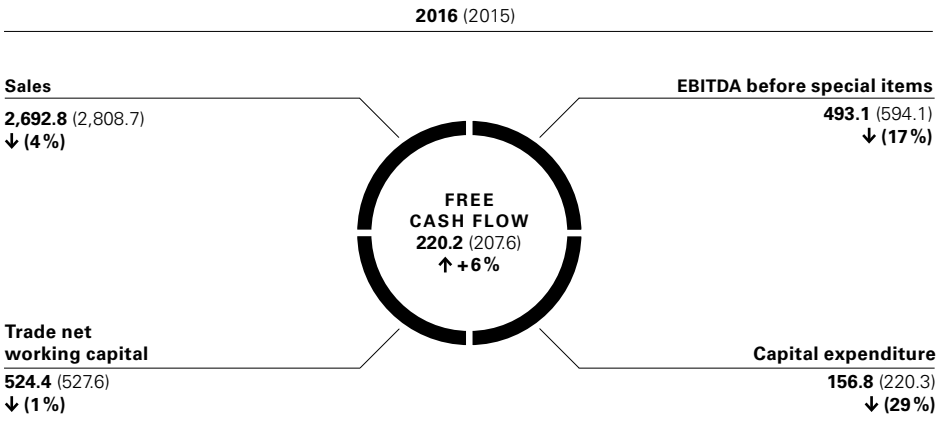
GROUP MANAGEMENT

Focus 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 (in EUR million)



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. In addition, strict management of trade net working capital and value-oriented investment activities 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**

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 defined 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. The Group is also continuously improving the efficiency of its operational processes in order to limit cost rises to ensure that they do not outpace sales growth and without limiting future growth potential.

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

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.

Trade net working capital is the most important performance indicator for managing efficient use of capital.

Managing efficient use of capital through trade net working 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 management reporting. There is a specific approval process for the collection-based purchase of inventories for the Group's own retail business in the interests of additional inventory optimization. In addition to future sales quotas, this process also takes account of projected discounting levels and future expected sales growth.

Capex focuses on the Group's own retail business

The potential profitability added of investment projects proposed by the management of the Group companies is assessed in the light of the relevant cost of capital. The renovation and modernization of the existing store portfolio, selective new openings and the cross-channel integration and digitization of its own retail operations form the focus of the Group's investment activities. There is a specific authorization process for expansion projects in the Group's own retail business. Apart from a qualitative analysis of potential locations, this also includes an analysis of each project's present value.

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 decrease financial liabilities or retained as a cash reserve. The Group analyzes its balance sheet structure at least once a year to determine its efficiency and ability to support future growth and to simultaneously provide sufficient security in the event that 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, and investment controlling.

Regular update of Group planning

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

Based on the Managing Board's targets, the Group 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 net income in the current year. Based on the expected development of cash flow, the Group's Treasury department additionally prepares regular liquidity forecasts. This permits early recognition of financial risks and the adoption of measures concerning financing and investment requirements. → **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

Central 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

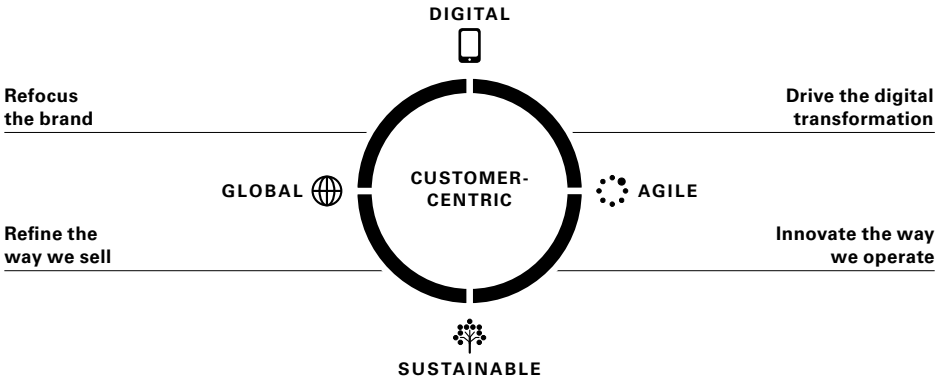
Further development of the strategy aims at a return to sustainable and profitable growth

The operating environment faced by HUGO BOSS has changed radically in recent years. Growth rates in the sector have declined considerably. Furthermore, consumers are increasingly using digital channels to keep up with trends and the offerings from individual brands. Although the overwhelming majority of purchases are still made in physical stores, customers expect the digital offerings and the in-store shopping experience to be seamlessly complementary. The further development of the strategy undertaken in 2016 takes these changes in the operating environment into account and aims to return the Group to long-term sustainable and profitable growth. The Company's actions are guided by the vision of being the most desirable fashion and lifestyle brand. HUGO BOSS believes that the desirability of its brands will be the most important factor in the Group's long-term success. The objectives of employing the right people, maximizing customer satisfaction and offering the best products in the industry are in line with this fundamental concept and are predicated on profitable growth.

Growth strategy based on four pillars

The strategic framework for the Group strategy is formed of five attributes: First and foremost, HUGO BOSS wants to ensure that all its activities are consistently aligned in a customer-oriented manner. Taking this as a basis, the Group must act in a digital, agile, sustainable and global manner in all areas. This requirement guides the Group's specific actions within the four strategic fields of action: HUGO BOSS is redefining its brand portfolio and the positioning of its brands and is further developing its distribution strategy on this basis. In addition, the Group is focusing on the digital transformation of its business model and is actively transforming its corporate culture in order to promote entrepreneurial thinking and actions, and to make its key business processes faster and more agile.

02|07 FIELDS OF ACTION



REALIGNING THE BRAND PORTFOLIO

Focus on BOSS and HUGO

In order to address customers clearly and convincingly, the Company will only operate with two brands in future – BOSS and HUGO.

BOSS offers confident business wear and refined casual wear collections for sophisticated customers

Through its BOSS brand, the Company reaches out to status-oriented, rationally-minded customers who wish to dress in a classic yet modern and high-quality style. The BOSS customer has exacting standards when it comes to quality and fit, and attaches great importance to an advantageous value-for-money proposition. The shopping experience must also meet the highest standards, particularly with regard to personal service. BOSS offers this customer confident business wear and refined casual wear collections in the upper premium segment, characterized by the highest quality, sharp cuts and clear designs. Particularly in the entry-level price range, BOSS will invest in the value proposition of its products.

BOSS Orange and BOSS Green to become part of BOSS

The previously independently managed BOSS Orange and BOSS Green brands will be integrated into the BOSS core brand as of the Spring/Summer 2018 collection in order to provide the customer with a consistent brand experience for all occasions – business, casual and athleisure. The current BOSS Orange range, which will form the casual collection element of BOSS, will be upgraded and its fashion statement brought closer in line to the BOSS values. The current BOSS Green range will represent the athleisure collection element of the BOSS brand, and retain a largely unchanged fashion statement. The Company expects to strengthen its market presence significantly in the growing casual wear segment as a consequence of this change.

02|08 TWO STRONG BRANDS

	BOSS HUGO BOSS	HUGO HUGO BOSS
Brand values	Highest quality, sharp tailoring, clear designs	Progressive & contemporary design, expressive fashion statement
Brand message	BOSS offers confident business wear and refined casual wear for sophisticated customers who want to be impeccably dressed for every situation	HUGO offers designer clothes at an affordable price which give the wearer a 24-hour look
Brand personality	Successful, confident, sophisticated	Spontaneous, individual, contemporary
Positioning	Upper Premium	Premium

HUGO stands for affordable designer fashion

In contrast to BOSS, HUGO is targeted at customers who are significantly more fashion-conscious and who consider their style of dress to be an important element in expressing their personality. The HUGO customer is open-minded, individual and spontaneous, and likes to shop, frequently doing so via online and mobile channels. HUGO offers this broad and generally younger customer base fashionable business and casual wear collections that are distinguished by their progressive designs and clear fashion statement. HUGO will remain anchored in the premium segment of the market, but will be more differentiated from BOSS in terms of price and fashion statement going forward. The brand's prices will be around 30 % lower globally than those of BOSS. This will make HUGO significantly more

attractive in terms of price, particularly outside its current core market of Germany. The Company therefore expects to significantly increase the sales of the HUGO brand in the future. In 2016, the Company generated 14 % of its sales from the HUGO brand.

Womenswear remains an important part of the business model

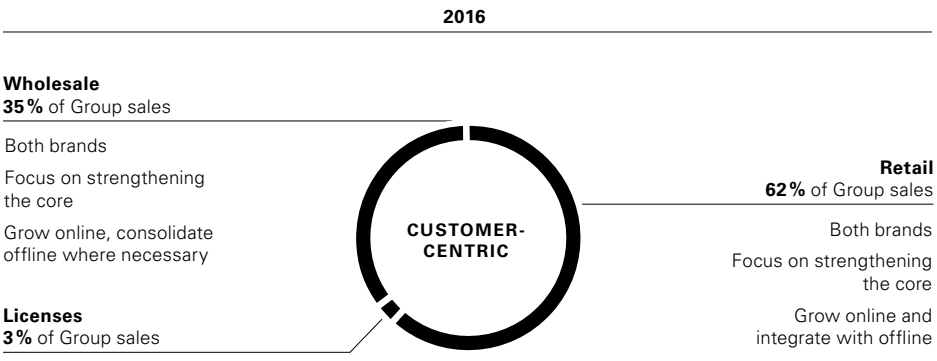
Womenswear, which accounted for 11 % of Group sales in 2016, remains an important part of the HUGO BOSS business. In terms of both fashion and price, the positioning of the two brands BOSS and HUGO in the womenswear market corresponds to that of menswear. In future the womenswear collections will reflect the character of the two brands even more closely. The expansion of the casual wear product range also offers attractive growth opportunities. Due to its commercial importance, the Company will, however, once again focus more on menswear than in recent years. The BOSS Menswear Collection will therefore be presented at New York Fashion Week in 2017. The brand communication activities will also be mainly directed at menswear.

FURTHER REFINEMENT OF THE DISTRIBUTION STRATEGY

Distribution strategy aligned to customer demand

HUGO BOSS aligns its distribution to its customers' purchasing behavior. Both brands – BOSS and HUGO – are sold both via the Group's own retail business as well as wholesale, via both bricks-and-mortar retail and online. The significance of the Group's own retail business, which generated 62 % of Group sales in 2016 (2015: 60 %), will continue to grow. However, the Group also sees selective growth opportunities in wholesale.

02|09 DISTRIBUTION STRATEGY



Ambitious goals to increase sales productivity

HUGO BOSS is concentrating on improving sales productivity in the Group's own retail business. The Company has set itself the objective of increasing its sales per square meter by approximately 20 % over the next five years. It intends to achieve this objective by increasing volumes. A crucial prerequisite for this is the realignment of the brand portfolio. The product offering in the stores will also place greater emphasis on the BOSS brand's core in the upper premium segment. To this end, the Company is expanding its range of

entry-level products and providing more space in its own stores for its casual and athleisure ranges. HUGO BOSS expects this to have a positive impact on customer footfall and volumes. This should more than compensate for the effects of the conscious decision to accept a decrease of average sales prices.

Focus on offering cross-channel personalized services

In addition to changes to the product offering, service improvements also play a major role in the upgrading of the shopping experience in own retail. HUGO BOSS is therefore empowering its sales staff and is investing in training courses in order to further improve the quality of service. In addition, omnichannel services are integrating the online offering with in-store retailing. For example, customers can check whether a product offered in the online store is also available in the nearest bricks-and-mortar HUGO BOSS store. Other services such as Click & Collect – the in-store collection of items purchased online – or Order in Store – online ordering of missing sizes or items in the store – are already available in the USA and selected points of sale in Europe. The rollout in Europe will be completed by the end of 2017. In addition, HUGO BOSS is working to further improve its customer relationship management. For instance, customers are given the opportunity to become members of the HUGO BOSS EXPERIENCE customer program, which means they obtain service benefits and access to exclusive events. This gives the Company the opportunity to become better acquainted with its customers in the medium term and provide them with tailor-made offers.

Continuous optimization of the store network

HUGO BOSS is also continuously optimizing its store network to meet changing consumer requirements. New store concepts will be developed for BOSS and HUGO in 2017 that will express the individual values of the two brands in an optimal manner, as well as seamlessly integrating digital services into the purchasing process. The store concepts will be installed in newly opened and renovated stores from the end of 2017. The Group will continue to ensure that existing stores are renovated after around five years in order to ensure the consistent high quality of the brand presentation and to increase sales. At the same time, the number of new openings will decrease. While only selective new openings and shop-in-shop acquisitions from department store partners are planned for BOSS, the distribution of HUGO is to be expanded in the medium term via shop-in-shops operated directly by the Group and freestanding stores. By way of contrast, the Group is looking at closing stores that fail to achieve the expected return on investment and whose leases are expiring on a case-by-case basis.

Wholesale business offers selective growth opportunities for BOSS and HUGO

The Company sees opportunities to increase its market share with BOSS and HUGO in the wholesale business. In addition to a high brand desirability, this is based on a convincing product range that is tailored to the needs of the retail partner, best-in-class service and the Group's high delivery reliability. In designing its distribution, HUGO BOSS attaches great importance to ensuring the high quality of its brand presentation and an attractive brand environment that corresponds to the positioning of the respective Group brand. In the online channel in particular, the Company sees opportunities for expansion, especially in the form of shop-in-shops on partners' websites that are operated on a concession model. On the other hand, the Company expects ongoing consolidation in physical retailing and closures among smaller, often owner-operated specialist stores.

Ensuring a globally consistent brand and shopping experience continues to be given high priority

As a globally active group, the Group's distribution strategy aims to ensure a globally uniform brand and shopping experience. Where necessary, the Company therefore withdraws from distribution formats that do not meet the Group's requirements. In this regard, HUGO BOSS is currently streamlining its wholesale distribution in the U.S. market. The Company has also undertaken extensive measures to align its global sales prices more closely. HUGO BOSS plans to limit the maximum price difference for a comparable product to a maximum of 30 % between two markets by the end of 2018. Any remaining price differences will result entirely from differences in transport costs, taxes and customs charges. While this will therefore result in further reductions in price in Asia, average prices in Europe are expected to rise slightly. The price structure in America will remain unchanged. The effects of the price adjustments should therefore be neutral for the Group as a whole.

DIGITAL TRANSFORMATION OF THE BUSINESS MODEL

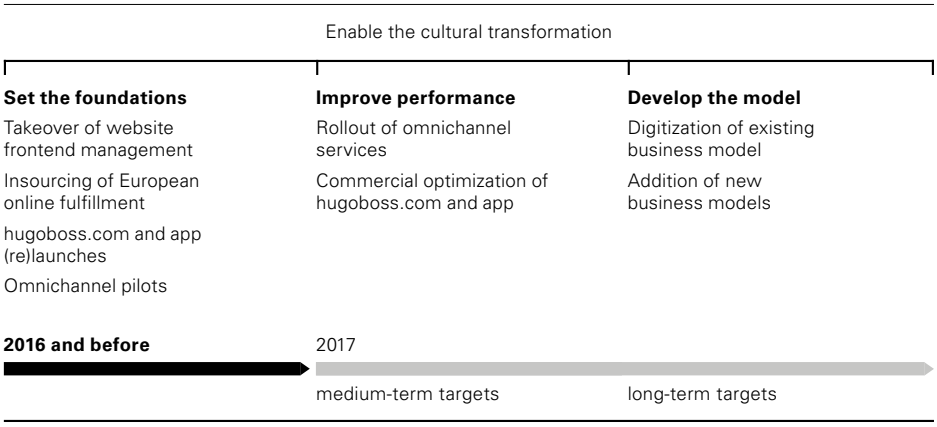
Digitization of the business model is building on a solid foundation

Digitizing the business model offers HUGO BOSS attractive new possibilities to increase customer value and improve efficiency. In doing so, the Group is building on its strong IT and logistics platform. The Group has also established a firm foundation for the online area in recent years. For example, the Company has been responsible for the entire management of the hugoboss.com website for several years. Order fulfillment in the European online business was also insourced from a partner in 2016.

Commercial optimization of the website a main focus in 2017

The hugoboss.com website is at the heart of all the Company's digital activities. Its purpose is not only to sell products, but also to serve as a medium to inspire, entertain and advise interested visitors. In addition, the increasing offer of omnichannel services closely integrates the site with the bricks-and-mortar retail operations and so leads customers to stores. As part of a redesign in October 2016, the look of the website was substantially upgraded and expanded to include attractive content. Its presentation now also adapts seamlessly to different devices. In order to take account of the increased proportion of users visiting the site from mobile devices, HUGO BOSS also launched an iOS app in October 2016. The app will be continuously developed and supplemented with new functionalities over the course of the current year. In addition, the user friendliness and technical performance of the hugoboss.com website are to be enhanced in order to put the e-commerce business back on track for growth.

02|10 THE GROUP'S DIGITAL ROADMAP



Over the long term, the potential to digitize the business model along the entire value chain should be utilized wherever it is economically viable. Products are increasingly being developed digitally. The digital exchange of product specifications with suppliers also provides an opportunity to reduce lead times and ensure uniform product standards. In the long term, digital showrooms will be able to simplify the process of selling to wholesale customers. The use of digital elements is becoming ever more important in the Group's stores. In addition to the use of tablets to advise customers, large touchscreen displays will be tested in selected pilot stores this year, allowing customers to order missing products and combine different styles. Lastly, digital channels also extend the aftersales services on offer. In addition to the changes to the existing business model, the Group is also examining new business models to assess their ability to contribute to future growth.

Digitization of the business model improves customer benefits and creates efficiency gains

ACTIVE TRANSFORMATION OF THE CORPORATE CULTURE

The upper premium apparel market is changing at ever greater speed. HUGO BOSS must always meet the ever-increasing demands of its customers and master the challenges of technological upheavals. To keep pace with these changes and remain successful in the long term, HUGO BOSS is working on an active transformation of its corporate culture. The Company wants to encourage its employees to embrace change in order to realize their own potential and create additional customer value. This requires the abandonment of complex organizational and reporting structures and the establishment of an environment that encourages innovation and forgives mistakes. The setting up of cross-functional teams and transfer of clearly defined responsibilities will accelerate decision-making processes and promote an entrepreneurial mindset. For example, the new HUGO BOSS app was developed in only six weeks. This was achieved by giving a small team a large degree of responsibility to create incremental customer value within a very short period of time. In 2017, HUGO BOSS will focus its efforts on driving this transformation forward by providing suitable concepts and instruments in human resource management. **→ Employees**

Changes to the corporate culture to make the Company faster and more agile

"Fast track" concept to complement regular collection creation process

Speed often equates to economic success in the apparel industry. HUGO BOSS is therefore endeavoring to create its collections more quickly and flexibly. The Company is therefore complementing its regular development process with a "fast track" concept that will permit adding products to its collection based on short-term trends. It will also enable the restocking of top-selling items within the season. This concept will shorten time to market from months to weeks. Based on the successes already achieved in 2016, the Group wants to continue the expansion of this concept in the coming seasons and to extend it to an ever-larger proportion of the collection. The use of digital prototypes and the increasing digitization of the manufacturing process will support this development.

EMPLOYEES

The passion for fashion, the creativity and the skill set of the almost 14,000 employees working for the HUGO BOSS Group around the world are reflected in unique products and shopping experiences. The employees therefore make a decisive contribution to the Company's success.

Personnel work aligned with mission statement

The core task of global personnel management at HUGO BOSS is to create the environment and oversee the processes to facilitate goal-oriented and responsible behavior by employees in accordance with the corporate vision – "Be the most desirable premium fashion & lifestyle brand". The five corporate values – quality, passion, respect, cooperation and innovation – form the principles underlying daily working relationships and reflect the culture lived in the Company.

Employee survey conducted for the second time

Personnel management at HUGO BOSS seeks to create an environment that ensures that all employees can make the best possible contribution and develop their potential to the full. To enable this, it is very important to the Company to find out how individual employees view their employer, their working conditions and the duties assigned to them. The second employee survey was conducted at HUGO BOSS AG towards the end of 2016. In addition to HUGO BOSS AG, the subsidiaries in Asia, Turkey and the Swiss subsidiary in Zug also participated. The participation rate was at 81 %. 72 % of respondents stated that they were generally satisfied. The objective now is to develop action plans with the management and employees to exploit the potential for improvement identified in the survey. The employee survey will be conducted globally from 2018 onwards.

HUGO BOSS enhancing its appeal as an employer

The increase in attractiveness as an employer was a key focus of personnel work at HUGO BOSS in 2016. For example, the joint activities with universities were expanded. Through numerous events on the HUGO BOSS Campus, students of various disciplines were given a comprehensive insight into the diverse working environment at HUGO BOSS in the form of training courses, workshops, case studies and presentations. The employer branding campaign, which presents HUGO BOSS as an employer, has also been overhauled. In particular, it presents entry-level opportunities in the strategically important areas of retail, IT and digital, and will be visible to future employees in 2017. Lastly, there has been a global drive to expand active recruitment. For the German market, this process was supported by a campaign partnership with LinkedIn.

In 2016, HUGO BOSS was again rated as one of the Top 100 most attractive employers in the annual surveys conducted by the Universum and Trendence institutes. In the "Working in Fashion" study conducted by Textilwirtschaft, the Group improved its ranking from third place to second place in 2016.

Personnel work supporting implementation of the corporate strategy

Last year, personnel management supported the Company's strategic focus on the retail business and the digitization of the business model by strengthening the use of new recruiting methods. For example, the Company is increasingly pursuing an active sourcing approach, in which candidates for vacancies with very specific requirements are approached directly. In addition, internal high-potential employees are supported by a new Talent Development Center, in which employees who show great potential at a global level are identified and developed at an early stage. Lastly, managers are prepared for new and evolving requirements by means such as personality analysis and the use of a 360-degree feedback tool.

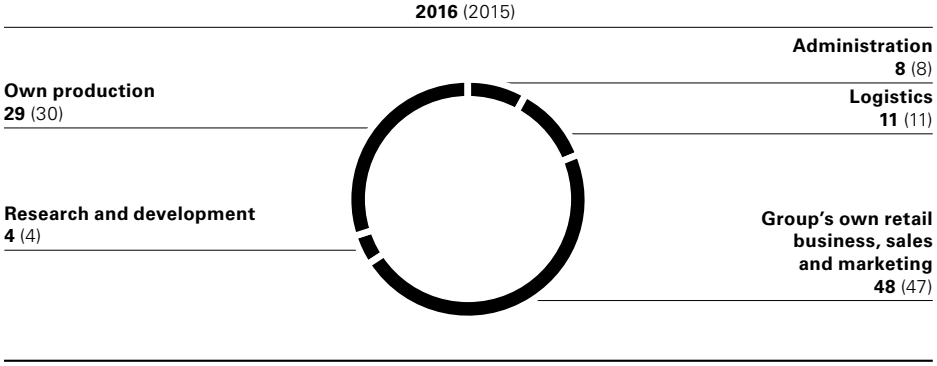
Employee numbers largely unchanged in 2016

At the end of 2016, the HUGO BOSS Group employed 13,798 employees around the world (2015: 13,764). This was an increase of 34 on the previous year.

02|11 NUMBER OF EMPLOYEES AS OF DECEMBER 31

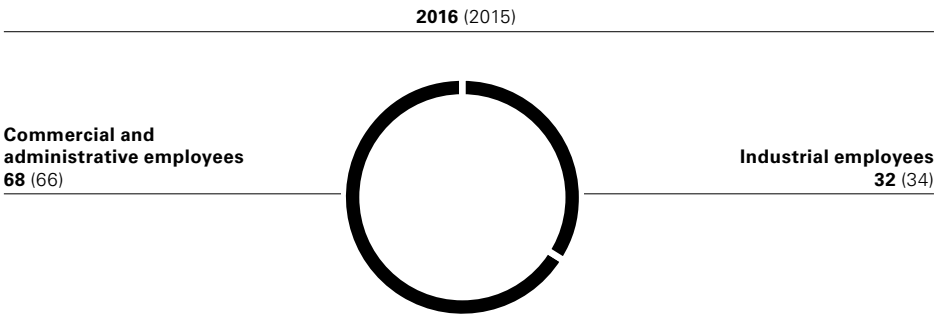
The increase reflects the Group's growing focus on its own retail business. The number of employees in the Group's own retail business rose to 5,584 (2015: 5,349). However, the increasing automation and digitization of the production process resulted in a decline of in-house manufacturing employees.

02|12 EMPLOYEES BY FUNCTIONAL AREA AS OF DECEMBER 31 (in %)



The proportion of the total workforce engaged in commercial positions increased slightly. At the end of 2016, 9,357 employees (2015: 9,150) or 68 % (2015: 66 %) of the total workforce were in commercial positions, while 4,441 employees or 32 % (2015: 4,614 or 34 %) of the total workforce were assigned to industrial activities. ➔ **Notes to the consolidated financial statements, Note 8**

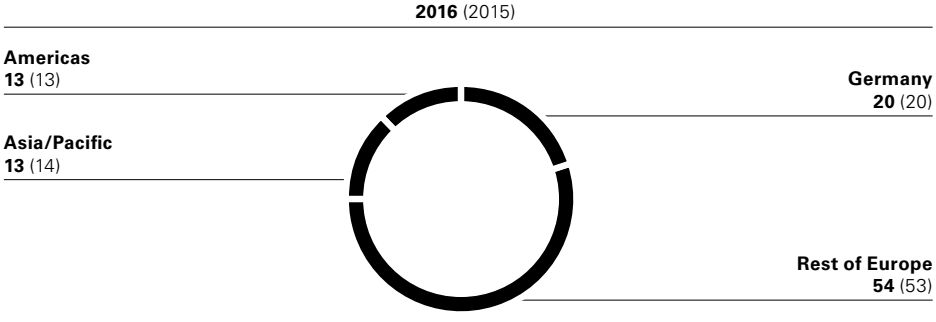
02|13 INDUSTRIAL, COMMERCIAL AND ADMINISTRATIVE EMPLOYEES AS OF DECEMBER 31 (in %)



Regional distribution of employees reflects global orientation

The Company's global positioning is also reflected in the employee numbers. 80 % of the Group's employees were based outside Germany last year (2015: 80 %).

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



Proportion of women in management remains on a high level

At 59 %, women account for the majority of the HUGO BOSS Group's workforce (2015: 59 %). Women held 45 % of the positions across all four management levels at the end of December 2016 (2015: 45 %). At the end of 2016, 27 % of the posts in the first management level below the Managing Board were occupied by women (2015: 28 %), while the figure in the second management level was 45 % (2015: 45 %). The Managing Board set a target of at least 30 % of women in each of the two management levels below the Managing Board to be achieved by June 30, 2017. ➔ **Corporate Governance Report**

02|15 EMPLOYEE STATISTICS (in %)

	2016	2015
Proportion of men in total workforce	**41**	**40**
Proportion of women in total workforce	**59**	**59**
Proportion of men in management	**55**	**55**
Thereof first management level	73	72
Thereof second management level	55	55
Proportion of women in management	**45**	**45**
Thereof first management level	27	28
Thereof second management level	45	45
Average age in years	**35**	**35**

Training is a key element in the recruitment of potential management

The Company had 82 apprentices and Cooperative State University students last year (2015: 116). 34 new apprentices and students began their training in 2016. The centrally organized trainee program will also be further expanded in the coming fiscal year to secure a pool of potential management talent.

Personnel training and development program boosting the Company's performance

HUGO BOSS helps its employees to continuously broaden their knowledge and skills with a systematic personnel training and development program. In order to assess and clearly document the performance, skills and development potential of each individual, all supervisors conduct annual feedback interviews with their employees. At these interviews, tasks and personal goals for the year ahead are set and training and development needs to meet these goals are defined. Individuals' personal development is increasingly being supported by transfers to other functions either at the Group's headquarters or at a foreign subsidiary. There is also the option of expanding their areas of responsibility or promoting them to specialist or management positions. Executives are supported by individual advice and by a broad range of training offerings. In 2016, the focus was on resilience and change management.

Employees are invited to take part in needs-based professional development through which they can improve their day-to-day performance and grow their personal and professional skills beyond the requirements of their current job profile. For example, the "IT Excellence Program" was developed to support the digital transformation and to provide IT staff with specific new expertise. Last year, employees across the Group successfully completed just under 80,000 web-based training courses (2015: 56,000).

Supporting the work-life balance continues to be driven forward

HUGO BOSS attaches great importance to employees having a healthy work-life balance. An extensive support program is available for young families. To increase the flexibility of working hours, framework conditions have been put in place for the home office program and individual part-time working models. Employees also have the opportunity to participate in a variety of sporting activities and nutritional advice sessions.

HUGO BOSS takes the health and safety of its employees seriously

HUGO BOSS has set itself the objective of defining standards throughout the Group to further promote the health of its employees and to improve its occupational health and safety provisions. As an integral part of occupational health and safety management, the Company's workplaces and processes are regularly examined to identify factors that could be hazardous or stressful for employees. This includes the evaluation of risks and continuous improvement of existing processes. Employees of HUGO BOSS AG also attend regular training courses on occupational safety issues. A global standard was defined for the organizational and operational occupational health and safety structure in the Group's own retail business last year, and specific global online training was rolled out for all retail employees.

Employee remuneration based on transparent system

The HUGO BOSS Group's remuneration system is designed to ensure that employees receive fair and transparent compensation and to promote a culture of performance. Employees in central functions with collectively negotiated wage agreements in Germany are remunerated on the basis of the collective agreements of the Südwestdeutsche Bekleidungsindustrie (Southwest German Textile Industry). Employees who do not have collectively negotiated wage agreements receive a basic salary plus a short-term incentive, of which half is linked to Group targets and half to the achievement of qualitative and quantitative personal goals. The Group targets include financial components such as sales and EBITDA. The compensation system for management at the two levels below the Managing Board also includes a long-term incentive program that corresponds to that of the Managing Board. The program is based on virtual shares and is linked to the achievement of specific targets. These relate to the relative total shareholder return, return on capital employed, employee satisfaction and corporate performance in the area of sustainability over a period of three years. The program thereby creates long-term incentives. Retail staff 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 depends on the achievement of service standards and guidelines defined as standard throughout the Group. In addition, reaching targets set for specific retail indicators creates shared incentives for the employees of the individual stores. All employees participate in the Group's success through an annual employee bonus that is linked to the achievement of the Group's targets.

HUGO BOSS makes an important contribution to the financial well-being of its employees after retirement, offering them a wide range of company pension schemes. First, the Group takes out employer-funded direct insurance for all employees in Germany who have been with the Group for more than six months. Second, it encourages employee-funded deferred compensation by providing an additional sum over and above that required under the collectively negotiated agreements. Once a year, the employees subject to collectively negotiated wage agreements can pay their flexitime credits into their occupational pensions. In addition to the contractually defined salary components, employee benefits include a travel allowance and access to the art and cultural offerings sponsored by the Group.

RESEARCH AND DEVELOPMENT

At HUGO BOSS, research and development (R&D) refers to the product development process, which describes the transformation of a creative idea into a marketable product. The Group's R&D activities comprise product design, pattern design and technical product development. The work of the R&D teams is particularly evident in the use of new types of materials, innovative patterns and production techniques that enhance both quality and efficiency.

Innovation and development work is spread over several locations

Innovation and development work is organized at HUGO BOSS across the five development centers in Metzingen (Germany), New York City (United States), Coldrerio (Switzerland), Morrovalle and Scandicci (Italy). At its Group headquarters in Metzingen, the Company leverages its many years of experience in industrial textile manufacturing to achieve trend-setting creative and technological product developments in the core business of classic tailoring as well as leisure and sportswear. Some of the BOSS womenswear collections are created at a design studio in New York in order to capture trends more quickly. The Coldrerio competence center is not only in charge of 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.

Creative management gathers inspiration via various channels

Creative management marks the beginning of the production development process. The work of the design teams includes defining the collection statement, designing the color, theme, shape and fabric concepts and setting the targeted price points. The first step in the development process of a new collection entails defining the pieces of content required. To this end, HUGO BOSS categorizes its points of sale into various clusters on the basis of various shared characteristics such as local purchasing power, climate and the brand environment. The collection modules are then identified on the basis of cluster-specific customer demand, which provides the framework for the development of a new collection. In addition to a sell-through analysis of the reference season, development is also influenced by new color and material trends as well as ideas for innovative production techniques which the design teams gather at specialist trade shows. They also seek inspiration, for example, from architecture, design and art but also from new technologies as well as social and economic trends. To detect fashion trends at an even earlier stage, the design teams also make limited use of external advisors such as trend scouts.

The BOSS Womenswear Spring/Summer 2017 collection has been inspired by David Hockney and his color palette. Soft shapes and bold tones represent summer and a relaxed lifestyle. The focus of the BOSS Menswear Spring/Summer 2017 collection is on ease and comfort. The ultimate lightweight component, the parachute, was used as an inspirational element. The "Traveller Collection" was developed especially for the traveling man who places particular value on ease, breathability and flexibility.

First-time introduction of NFC technology for selected product groups

In a second step, the technical feasibility of the design teams' creative ideas is reviewed by the pattern design department. Technical product development then turns the models into prototypes and tests their suitability for the industrial production process. All this is done at the Group's own Technical Center in Metzingen, its largest development center. This is also where new production techniques are developed and tested. With its Spring/Summer 2017 collection, HUGO BOSS is introducing NFC (Near Field Communication) technology for the first time for selected products in the athleisure segment. This technology allows customers to scan an NFC chip integrated into the product, or alternatively a QR code, using a mobile device. In this way, customers can automatically receive more information about the selected product, along with a direct link to the online shop. NFC technology allows to communicate more detailed product information to the customer than is the case with a traditional product tag.

The prototyping stage is followed by sampling, which involves the production of a sample collection for presentation and sale to international wholesale customers. Finally, the articles are produced and shipped to wholesale customers and the Group's own retail stores.

02|16 PRODUCT DEVELOPMENT PROCESS AT HUGO BOSS

Establishment of a technology lab to promote innovation

A technology lab was set up in Izmir to create a platform for innovative ideas. It comprises 16 people from various occupational groups. On the basis of existing processes, optimizations are tested and the standardization of production is further accelerated. For instance, a shirt cuff has been produced completely automatically for the very first time. In collaboration with machinery manufacturers, existing machines are being enhanced and new ones developed in case of special requirements.

It was decided to set up a product sustainability lab in Metzingen to encourage sustainable innovation. This will help to develop and implement products that will demonstrate the HUGO BOSS sustainability requirements in a particularly impressive manner. These products stand out through the use of new manufacturing techniques and particular sustainability attributes. A team made up of employees from various areas and functions has been put together to drive these objectives. Collaborations with external bodies, companies and other specialized partners are also under consideration. The input acquired from these initially small-scale products is later to be expanded across the entire product range.

Slight increase in research and development employees

The HUGO BOSS Group's creative and development departments are staffed by skilled fashion designers, tailors, shoe and clothing technicians and engineers. In 2016, the headcount in research and development came to 577 employees (2015: 573). → **Employees**

02|17 NUMBER OF EMPLOYEES IN R&D AS OF DECEMBER 31

Research and development expenses at prior-year level

Research and development expenses largely comprise personnel expenses and other operating expenses. In 2016, as in past 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 due to the short product life cycles. Total expenditure across the Group in connection with the creation of collections remained almost unchanged at EUR 64 million compared with the prior year (2015: EUR 65 million). At 72 %, personnel expenses made up the majority of research and development expenses (2015: 69 %). The ratio of research and development expenses to consolidated sales remained unchanged at 2 % in the past fiscal year (2015: 2 %).

02|18 R&D EXPENSES (in EUR million)

02|19 R&D EXPENSES (in % of sales)

SOURCING AND PRODUCTION

When procuring materials and manufacturing its products, HUGO BOSS sets high standards with regard to quality. Thorough quality controls and the incorporation of customer feedback contribute to the continuous improvement of the manufacturing process. In addition to economic criteria, the strict observance of labor, environmental and social standards are requirements when selecting suppliers. Manufacturing goods in its own production facilities allows the Company to react to trends more quickly and to test innovative production methods.

Important product groups are manufactured internally

In terms of value, 20 % of total sourcing volumes were produced by the Group's own facilities last year (2015: 20 %). The remaining 80 % of the total value of procurement in 2016 comprised products manufactured by independent contract suppliers or were sourced as merchandise (2015: 80 %).

The Group's own production plants are located in Izmir (Turkey), the Group's largest facility with 3,777 employees in 2016 (2015: 3,942), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). The main focus in Izmir is on the production of particularly high-quality products such as suits, jackets and shirts. Furthermore, all tailored womenswear is manufactured in Izmir. The Metzingen site is used as a development and a production facility. Apart from prototypes and sample pieces, its Technical Center mainly produces suits, jackets and trousers in small series. In particular, HUGO BOSS tailors its made-to-measure and full-canvas suits in Metzingen, which therefore qualify globally for the "Made in Germany" label. Metzingen also manufactures products for the Group's advertising partners and fashion shows. The Radom and Morrovalle facilities mainly produce shoes.

Stable supplier network a success factor

To ensure the excellent craftsmanship and optimum availability of its products, the Company works with carefully selected suppliers. Last year, the HUGO BOSS Group sourced goods from 233 partners in the area of contract manufacturing and merchandise (2015: 257). The number of these partners was further reduced by optimizing capacity utilization and through a consistent focus on strategically important partners. In the interests of minimizing risk, the procurement volume is spread over a global network of suppliers to reduce exposure to individual procurement markets and production facilities as far as possible. Consequently, the largest independent supplier accounted for only 9 % of the Group's entire procurement value (2015: 9 %). **➔ Report on Risks and Opportunities**

High standards for suppliers' labor and social standards

HUGO BOSS works solely with carefully selected partners that satisfy its stringent requirements with regard to internationally recognized labor and social standards. HUGO BOSS has joined various organizations and alliances to ensure the observance of labor and social standards. HUGO BOSS also conducts its own audits to regularly monitor the observance of social standards and imposes on suppliers an undertaking to provide information on environmental issues. In addition to observance of strict social and labor standards, the ability to satisfy the high quality and craftsmanship requirements constitutes a further important criterion in the selection of suppliers. The supplier's reliability, technical equipment and innovativeness, financial strength and cost efficiency are also taken into account. **➔ Sustainability**

HUGO BOSS primarily uses fabrics and trimmings from Europe

HUGO BOSS differentiates its sourcing activities into raw materials, in-house production, contract manufacturing and purchased merchandise. The raw materials which it sources mainly comprise fabrics as well as trimmings such as lining, buttons, thread and zippers. Cotton, wool and leather are the most frequently used materials. The Group purchases most of the required raw materials from suppliers in Europe. Fabrics are predominantly sourced from long-standing partners in Italy.

For products made under contract manufacturing, HUGO BOSS provides suppliers with the fabrics, patterns and other items required. These are primarily product groups such as coats, jackets and suits that demand particularly advanced production skills and technical facilities. HUGO BOSS mainly works with suppliers in Eastern Europe in this segment.

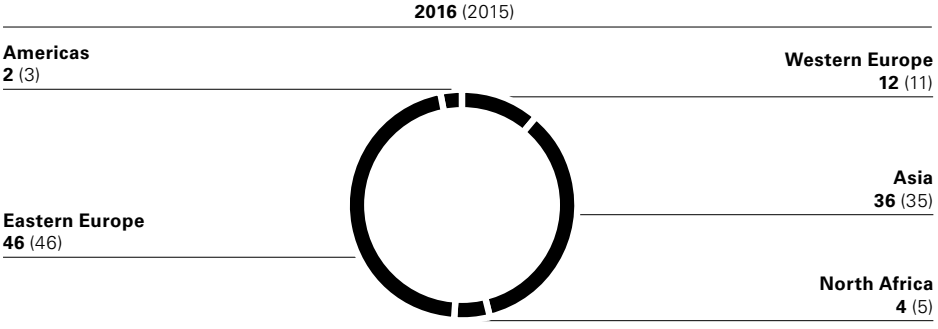
Merchandise primarily focuses on the sourcing of jeans, T-shirts and polo shirts. With this kind of sourcing, the suppliers are provided with the patterns. However, they independently source their own fabrics and additional items. Most of the suppliers for this kind of manufacturing are based in Asia, Eastern Europe and North Africa.

The classic shoe collection is produced in the Group's own factories in Italy and Poland. The remaining shoes and leather accessories are mainly sourced from business partners in Asia and Europe.

Izmir is the largest in-house production location

In value terms, Eastern Europe (including Turkey) accounts for 46 % of the total procurement volume (2015: 46%) and thus remains the Group's most important procurement market. The Group's own factory in Izmir plays a key role here, accounting for 16 % of the total volume sourced (2015: 15 %). 36 % of products are sourced from external suppliers in Asia (2015: 35 %). Within Asia, China is by far the most important procurement market. The remaining goods are sourced from Western Europe (12 %; 2015: 11 %), North Africa (4 %; 2015: 5 %) and the Americas (2 %; 2015: 3 %).

02|20 REGIONAL SPLIT OF SOURCING AND PRODUCTION VOLUME (in %)



Digitization of the production processes continues to be driven forward

The Group also makes use of the potential of digitalization in its procurement. All production lines at the Izmir facility have been linked to a central IT system. As a result, production is monitored and managed in real time at the product level. The machinery is maintained by "Uber 4 Mechanics". The technicians receive orders automatically, which are sorted according to urgency and on the basis of their individual abilities and skills. This makes the processing of orders significantly faster and more efficient.

Continuous quality improvement of great importance

HUGO BOSS sets exacting standards for the quality of the materials it uses. To ensure that these standards are met and to include customer feedback in the continuous improvement of the products, a round table is conducted once a month to discuss products with quality shortfalls. Two members of the Managing Board and the product managers always attend to ensure rapid decision making. During what are known as "quality walks", a number of products are randomly selected and submitted to a quality check. The focus is primarily on ensuring that members of the Managing Board and product managers have the same understanding of quality.

Quality management an integral part of the production process

The partners are furnished with standardized quality and production manuals clearly documenting these requirements to ensure that the quality assurance activities performed by suppliers meet the standards set by HUGO BOSS. In addition, the most important quality-related processes are described in a process manual. Moreover, employees at the production facilities regularly receive training in cutting techniques, production management as well as production technology from HUGO BOSS personnel. Wherever economically viable, production processes are automated to minimize tolerances. Compliance with manufacturing standards is ensured using permanently installed, technology-enabled controls that are always performed at specific steps along the production line. In addition to the permanently installed control levels, regular samples are taken to monitor the other steps of the process. Quality criteria are included as an inherent part in the semi-annual supplier assessments.

SUSTAINABILITY

HUGO BOSS aspires to operate sustainably and has incorporated this ambition as an integral element of its corporate strategy. The Company acknowledges the economic, environmental and social impact of its actions and simultaneously utilizes them for the success of its business. The objective of the principle "We act responsibly" aims to create added value – not just for the Company and its shareholders, but also for its employees, customers, business partners and society. Customers expect high-quality products and simultaneously adherence with exacting social and environmental standards. By addressing these expectations equally, the Company creates an essential prerequisite for customer loyalty and innovation. At the same time, the business model is enabled to evolve in line with future requirements, the efficient use of resources and processes along the value chain is optimized and the Group's employees are developed over the long term.

The six fields of action **We, Environment, Employees, Partners, Products and Society** provide the framework for the HUGO BOSS sustainability strategy.

The Group strives to continuously improve in all fields of action and, accordingly, has set itself ambitious objectives. Sustainability ratings for the financial market act as benchmarks for the Company, allowing it to objectively assess the achievement of these objectives and their progress. In 2016, HUGO BOSS was included for the first time in the FTSE4Good Index and again in the STOXX Global ESG Leaders Index. Sustainability aspects form a fixed component of medium-term management compensation. **➔ Compensation report**

We. "Creating values together"

HUGO BOSS aims to achieve long-term profitable growth, while accounting for the interests of its various stakeholders. The Company regularly engages in dialog with external stakeholders, in order to recognize and better understand their expectations in a timely manner. Relevant findings are also incorporated in corporate risk and opportunity management and thus help to further develop the Company's ethical principles and the HUGO BOSS Code of Conduct (see group.hugoboss.com).

As part of the ongoing exchange with stakeholders, an international stakeholder dialog was held in Bad Urach (Bad Urach Dialog) for the first time in October 2016. About 20 external stakeholder representatives, as well as internal experts from different departments attended the event together with Mark Langer, Chairman of the Managing Board of HUGO BOSS AG. The focus of the first Bad Urach Dialog was to give relevant stakeholders and organizations the opportunity to present their perceptions and point of views on the Company's sustainability activities. In addition, the HUGO BOSS materiality analysis, the possibility of collaborations with alliances or joint activities with universities, as well as current customer expectations were discussed in small groups. The open dialog provided valuable and constructive input for the further development of the sustainability strategy and thus will be continued in the coming year.

Environment. "Preserving natural resources"

An intact environment forms the existential basis for survival of both humans and animals – protecting it is a high priority for HUGO BOSS. The objective of environmental management is to reduce the Company's negative environmental impact and make a positive contribution to conserving biodiversity. The Company can influence factors ranging from the construction

and operation of its administrative buildings, warehouses and production sites to the transportation and distribution of merchandise. A detailed environmental guideline (see group.hugoboss.com) describes the principles of environmental protection in all relevant functions. The Company employs intelligent building concepts, environmentally friendly technologies and optimized transport routes; in order to reduce emissions and thus contribute to climate protection.

A main focus last year was on developing a new store concept that particularly accounts for sustainability issues and which will be implemented in Fall 2017. It formulates requirements for the sustainable construction and operation of stores, ranging from local sourcing to the use of sustainable materials and energy and waste management. In addition, HUGO BOSS regularly reviews the potential for increasing the energy efficiency of the buildings it uses. The use of energy-efficient technologies is taken into account from the outset in the planning phase of new construction projects. When renovating and constructing new buildings, the Company always strives to reduce energy consumption and related emissions by means of its own environmentally friendly energy supply systems and energy-efficient technologies. Stores have also procured energy from renewable sources for quite some time. In addition, HUGO BOSS seeks to obtain sustainability certifications for all newly built operational facilities. Moreover, the Company aims to reduce the environmental impact caused by transportation from the production facilities to the warehouses. To this end, HUGO BOSS uses optimized transport routes, such as shorter sea freight routes via the southern ports and the direct train route from Asia to Europe to minimize the number of air cargo shipments.

Employees. "Fostering a fair and responsible culture"

As one of the market leaders in the upper premium segment of the global apparel market, HUGO BOSS aspires to strengthen and expand its position in the competition for the most qualified employees. Attracting them, supporting their individual development, deploying them in a targeted manner and retaining them over the long term are the key aims of personnel work. The corporate values and the Code of Conduct are the foundation for cooperation within a value-based corporate culture at HUGO BOSS, which forms the basis for legally and ethically correct conduct in day-to-day business activities and is therefore binding for all employees.

Employees play a key role in the achievement of the Company's goals. Their satisfaction with HUGO BOSS as an employer is an important pillar of the personnel strategy and is regularly assessed. Staff surveys with Great Place to Work® Germany (GPTW) will be systematically rolled out to the international subsidiaries in the coming years. In the year under review, GPTW surveys were carried out in Germany, Turkey, Switzerland and throughout Asia, covering approximately 9,000 employees. The participation rate was over 80% and the overall satisfaction score just over 70% (maximum score: 100%). This score is not comparable to the previous survey, since additional subsidiaries have since been included. The survey is utilized by management as a reference to provide insight into employee needs and as motivation to find ways for further improvement.

The objectives focused on in 2016 included the revision of the global regulations on occupational health and safety with the aim of establishing a uniform standard throughout the Group. As part of occupational health management, annual health days, a wide range of sports offers, a mental health program, occupational health advice and family support

are available to the employees at the Company's head office. The Group provides similar offerings at other sites, such as in Coldrerio and Izmir. HUGO BOSS AG was awarded the Corporate Health Award for its excellent performance in corporate health management in 2016, receiving the highest evaluation, "Excellent".

In the year under review, the range of sustainability training courses was expanded, in order to explain the sustainability strategy to the employees and to improve the Company's sustainability performance. This includes making the employees aware of the need to comply with the HUGO BOSS Social Standards and to ensure that products are environmentally friendly in the form of a special sustainability training session devoted to the fields of action "Products" and "Partners". The Sustainability Days, which were held for the second time in October 2016, served a similar purpose. All six fields of action of the sustainability strategy were illustrated through lectures given by external experts and "sustainability you can touch" at interactive stands with a variety of visual materials.

Partners. "Achieving joint responsibility"

As a company with international production activities and business operations, sustainable procurement and production processes are of paramount importance to HUGO BOSS. On the basis of international standards, the Company is driving forward social compliance and environmental protection in its global supply chain.

The HUGO BOSS Social Standards (see group.hugoboss.com) are a fixed component of supplier contracts. These standards are based on the internationally acknowledged core labor standards defined by the International Labour Organization (ILO) and the United Nations Universal Declaration of Human Rights. Through these, suppliers commit themselves to complying with national laws, definition of maximum working hours, ensuring ethical, healthy and safe working conditions, prohibition of child labor, forced labor and discrimination, payment of adequate wages, freedom of association and collective bargaining and environmental protection. The HUGO BOSS Social Standards constitute the minimum standard in countries with inadequate national legislation.

In order to ensure compliance with good and safe working and social conditions in partner companies, as well as to further develop standards in the areas of fair wages, environmental impact, the management of hazardous substances and occupational safety, HUGO BOSS has joined organizations such as the Fair Labor Association (FLA), the German Federal Government's Partnership for Sustainable Textiles ("Textiles Partnership") and the Bangladesh Accord on Fire and Building Safety.

In addition to its participation in external initiatives, the Group implements its own social compliance program. The adherence with the HUGO BOSS Social Standards is verified through regular audits on the premises of suppliers. The Company obliges suppliers to provide information on environmental issues, as part of its collaboration with the Global Social Compliance Program (GSCP). In the interest of long-term partnerships, the Company intends to use these audits and subsequent improvement measures developed in response, in order to support its suppliers in achieving internationally approved social and environmental standards. The Supplier Days, which were held for the fourth time in November 2016 with a focus on "Sustainability & Value", also served this goal.

HUGO BOSS discussed with 15 suppliers which sustainability-relevant topics could add value in the supply chain. The Group is now working together on topics such as how unused raw materials from production can be utilized for other purposes.

As an additional contract component, HUGO BOSS obliges suppliers to sign a guarantee of compliance with the Restricted Substances List (RSL). The RSL outlines the observance of relevant local legislation and industry standards on the use of chemicals, as well as provides guidelines on the reduction of other potentially harmful substances in products and production processes. HUGO BOSS actively supports these preventive measures with extensive tests for hazardous substances performed in accredited laboratories, in order to ensure the safety and quality of the products. Moreover, HUGO BOSS works together with its partners on a project to minimize critical substances in the production process and product life cycle.

Products. "Ideas for tomorrow"

HUGO BOSS assumes responsibility throughout the entire lifecycle of its products. The collections should not only meet the highest standards of quality and innovation, but also pose no environmentatal or health risks.

During the design phase, the materials used are selected with a view to their longevity. Wherever possible, renewable raw materials are employed. The focus is also on optimizing the use of materials and the recyclability of individual components. The introduction of products that fulfill the highest sustainability requirements is also planned for the coming fiscal year. This is in line with the goal of realizing the most advanced product solutions with respect to manufacturing technologies and sustainability attributes. The input acquired from this initially limited-scale product manufacture is later to be expanded across the entire product spectrum. The design teams currently access a database covering the ecological aspects of materials and processes, as well as computer-based virtualization techniques that further reduce the need for physical patterns.

Animal welfare and the protection of biodiversity are key principles with regard to product responsibility in the selection of animal products such as leather, fur and wool. HUGO BOSS opposes animal testing and inappropriate animal breeding and rearing methods. The Company concentrates on fur that is a by-product of the food production industry. The Group also refrains from the use of farmed fur, angora wool and live-plucked down. In addition, HUGO BOSS is working on innovative processes. In this context, the Company has maintained a dialog with animal welfare and consumer protection organizations for many years. The Company's commitment to animal protection was awarded the Corporate Consciousness Award in November 2016 by the Humane Society of the United States (HSUS).

HUGO BOSS collaborates as a pilot company in the Natural Capital Protocol, which was officially launched in 2016. The protocol provides a standardized framework that identifies and measures various environmental impacts of products. Using the Natural Capital Protocol allows HUGO BOSS to translate environmental impacts (e.g. climate change, water and soil pollution) into monetary values. The Company is now in a position to directly compare and contrast different environmental influences and to identify the most influential factors in the supply chain.

Society.
"Promoting perspectives"

Contributing to society and creating tangible added value for it is an integral part of the corporate responsibility of HUGO BOSS. The corporate citizenship strategy defined in 2015 is based on the vision, mission and values of HUGO BOSS. It pursues the aim of supporting people in their personal journey through life and helping them to harness their individual potential for success. The strategy is based on the three pillars of access to education, professional development and promoting creativity. To this end, the Company collaborates with external partners and encourages its employees to volunteer.

For example, HUGO BOSS has long-standing partnerships with UNICEF, the United Nations children's protection organization, whose education projects the Company has supported financially for many years. At its location in Izmir, Turkey, HUGO BOSS works with the local employment office to offer an employment program for women in difficult economic circumstances. In a partnership with the renowned "Parsons The New School for Design" in New York, young talents in the area of fashion design are supported in their career development.

Supporting contemporary art is also a key component of HUGO BOSS' contribution to society. Contemporary art enables new ideas, fosters tolerance and an innovative spirit. For this reason, it has been a part of the Company's corporate culture for almost 20 years. The Company works with museums and renowned institutions in the area of art and design. It supports projects such as the HUGO BOSS ASIA ART Award, which was launched in 2013 in collaboration with the Rockbund Art Museum in Shanghai; and local community projects such as the Filderstadt Art School's "Food and Art" project that support young people.

Furthermore, the Company assumes responsibility for social challenges and provides assistance in special emergency situations. Since 2016, this has included a commitment to refugees in the Metzingen area. HUGO BOSS joined the German business sector's integration initiative "Wir zusammen" (We together) in 2016 and offers internships, training and jobs. In addition, employees volunteer in Company-funded German language classes and integration courses.

Further information on the Company's sustainability strategy and sustainability activities can be found in the annual Sustainability Report and on the Company website at group.hugoboss.com.

CHAPTER
3

Combined Management Report

69 – 138

The Fiscal Year

COMBINED MANAGEMENT REPORT THE FISCAL YEAR

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GENERAL ECONOMIC SITUATION AND INDUSTRY DEVELOPMENT

GENERAL ECONOMIC SITUATION

Weaker global economic growth than last year

According to the IMF, growth in the **global economy** in 2016 was, at 3.1 %, somewhat lower than at the beginning of the year. This was mainly due to a more cautious outlook in the industrialized economies as a consequence of the Brexit vote and slower than expected growth in the United States in the first half of the year. Rising commodity prices in the second half of the year in some emerging markets led to an improvement in macroeconomic indicators, and there was also an acceleration in growth in the United States.

Brexit vote creates uncertainty in Europe

According to the IMF, the **European economy** grew by 1.7 % in 2016. The impact of the Brexit vote meant that growth was slightly down on the prior year. Expansive monetary and fiscal policies and declining oil prices supported economic growth. The export industry also benefited from the depreciation of the euro. In Germany, the economy was supported by positive consumer confidence, which was marked by a low unemployment rate and real wage increases. In Great Britain, the economy grew less strongly than in the prior year. Uncertainties associated with the Brexit vote placed a burden on the economy, but the depreciation of the pound sterling provided positive impetus.

Significant slowdown in economic growth in the U.S.

According to the IMF, economic growth in the **United States** was, at 1.6 %, significantly below the prior-year level and the expectations at the beginning of the year. In particular, lower investment in the energy sector, the appreciation of the U.S. dollar and the uncertainty surrounding the presidential elections exerted pressure on economic growth. Positive impetus came from the U.S. labor market and high consumer confidence. The tax cuts proposed by the new president and the planned higher infrastructure expenses have recently led to an improvement in the early indicators. In South America, the IMF estimated that economic output contracted by 0.7 %. The countries of South America suffered in particular from low oil prices and heavy public-sector debt. Brazil's economic output declined, mainly due to the decline in oil prices and political uncertainties.

Feared economic downturn in China fails to materialize

In **Asia**, economic growth weakened to 6.3 %, mainly as a result of slower growth in China. The economic downturn that had been feared at the beginning of the year did not materialize, however. This was mainly due to the expansive monetary and fiscal policies and the resultant lending growth as well as stable domestic demand. The Japanese economy grew at a slower pace than in the prior year. The Japanese central bank further broadened its expansionary monetary policy in an effort to bolster the economy. Some early indicators have recently recovered, largely due to the fact that the appreciation of the yen did not continue.

INDUSTRY DEVELOPMENT

Industry contracts in 2016

The industry association Altagamma and the consulting firm Bain & Company estimate that sales in the premium and luxury goods industry declined slightly in 2016. On a currency-adjusted basis, the level remained stable compared with the prior year. The luxury apparel sector performed below-average and declined by 4 %. The industry was thus unable to benefit from the generally favorable consumer confidence. Comp store retail sales of many apparel companies declined, which exerted pressure on their profit-ability. The lower growth rates led to reduced expansion into new selling space compared to prior years. In addition, the fear of terrorism and heavy discounting in the U.S. had a negative impact on the development of the industry. In Europe in particular, business with tourists weakened, causing a regional shift in sales.

Low industry growth in Europe

According to estimates by Altagamma and Bain & Company, the premium and luxury goods industry in **Europe** grew by 1 %, which, adjusted for currency effects, was thus substantially lower than in the prior year. Business with Asian tourists declined, particularly in Germany, France and Benelux. The UK, on the other hand, benefited from positive tourism effects as a result of the depreciation of pound sterling but was unable to compensate for the declines in other European countries. In Germany and other Western European countries, business was also held back by weak local demand. In contrast, Southern European countries in particular benefited from increased consumer confidence.

Heavy discounting puts pressure on market development in the U.S.

According to estimates by Altagamma and Bain & Company, the premium and luxury goods industry in **the Americas** declined by 2 % when adjusted for currency effects. As a result, the industry was unable to benefit from favorable consumer confidence, unlike other industries. The heavy discounting in wholesale business continued in 2016. In many cases, the apparel industry responded to this by reducing distribution via this channel. In addition, the strong U.S. dollar and a decline in business with tourists exerted pressure on the region. Canada saw sound growth, but this weakened in the second half of the year. In South America, countries such as Brazil and Mexico benefited from a revival of local demand.

Recovery in China supports industry development in Asia

Industry development in **Asia** was regionally disparate in 2016. While China grew by 4 % on a currency-adjusted basis according to estimates by Altagamma and Bain & Company, most other markets were stable or slightly down. In China, the repatriation of local demand as a result of price adjustments and stricter customs checks provided positive impetus during the year. Business in Hong Kong and Macau continued to be marked by a challenging market environment and declining demand on the part of tourists. In Japan, the industry suffered from the appreciation of the yen and weaker local demand. South Korea, on the other hand, benefited from strong local demand and the positive effects of tourism from China.

GROUP EARNINGS DEVELOPMENT

Catalog of measures to return to profitable growth

In the 2016 fiscal year the Group took measures to return to **sustainable and profitable growth** in the future. In 2016, these measures particularly focused on improvements to the Group's market position in the United States and Asia, reductions in operating costs and efforts to ensure the sustained profitability of its network of stores.

HUGO BOSS therefore addressed the market situation in the Americas, which was marked by increased discounting, with distribution restrictions and further measures to enhance distribution of the BOSS core brand in local wholesale business. Along with the consistent alignment of the product range to customers' needs and increased communication activities, particularly in digital channels, these measures should further increase the brand's appeal. In China and other relatively small Asian markets, retail prices were brought more closely into line with the pricing structure in the rest of the world with the Spring Collection 2016 in order to stimulate customer demand.

Reductions in operating overheads and the renegotiation of leases for the Group's own retail stores resulted in improved cost efficiency in 2016. Furthermore, the absence of expenses resulting from one-time investment measures in the prior year, a reduced rate of expansion in the Group's own retail business and a stringent focus on projects making the greatest positive contribution to enterprise value led to a decrease in capital expenditures in the year under review.

HUGO BOSS also conducted a detailed review of those stores that had diluted the Company's profitability in the past. The upshot of this was the decision made by HUGO BOSS as part of its catalog of measures already in the second quarter 2016 to close around 20 freestanding retail stores by the end of 2017. Four of these closures had been completed as of December 31, 2016. HUGO BOSS expects the store closures to generate a positive effect on profits in 2017 and beyond. However, expenses of EUR 48 million were incurred in the 2016 fiscal year and are reported under "Other operating expenses and income". The expenses include provisions and impairments in connection with planned store closures and already settled compensation payments for lessors.

SALES PERFORMANCE

In fiscal year 2016, HUGO BOSS generated Group sales of EUR 2,693 million. Sales were therefore down 4 % on the comparable prior-year period in the Group's reporting currency (2015: EUR 2,809 million). At the same time, currency effects had a negative impact on Group sales in the reporting period. In local currencies, HUGO BOSS registered a 2 % fall in sales year on year.

SALES BY REGION

03|01 SALES BY REGION (in EUR million)

	2016	In % of sales	2015	In % of sales	Change in %	Currency-adjusted change in %
Europe[1]	1,660.0	61	1,683.2	60	(1)	1
Americas	581.9	22	670.5	24	(13)	(12)
Asia/Pacific	381.5	14	392.9	14	(3)	(2)
Licenses	69.4	3	62.1	2	12	12
TOTAL	**2,692.8**	**100**	**2,808.7**	**100**	**(4)**	**(2)**

[1] Including Middle East and Africa.

Regionally disparate sales performance

In fiscal year 2016, sales adjusted for currency effects developed unevenly from region to region. **Europe** including the Middle East and Africa saw a slight increase in sales. Growth in Great Britain made up for the slight declines in sales in Germany and France. In the **Americas**, sales declined significantly as a result of lower sales in the United States. **Asia/Pacific** saw a slight decrease in sales. Market contraction in Hong Kong and Macau was offset by increased sales in China. **→ Sales and Profit Development of the Business Segments**

SALES BY DISTRIBUTION CHANNEL

03|02 SALES BY DISTRIBUTION CHANNEL (in EUR million)

	2016	In % of sales	2015	In % of sales	Change in %	Currency-adjusted change in %
Group's own retail business	1,677.1	62	1,688.8	60	(1)	2
Directly operated stores	1,078.1	40	1,095.2	39	(2)	1
Outlet	523.5	19	511.0	18	2	4
Online	75.5	3	82.6	3	(9)	(6)
Wholesale	946.3	35	1,057.8	38	(11)	(9)
Licenses	69.4	3	62.1	2	12	12
TOTAL	**2,692.8**	**100**	**2,808.7**	**100**	**(4)**	**(2)**

Group's own retail business grows by 2% on a currency-adjusted basis

The **Group's own retail business (retail)** grew again in fiscal year 2016 on a currency-adjusted basis. Thus, the share of the Group's own retail business in Group sales rose. The expansion of the Group's own retail business through new openings and takeovers resulted in an increase in sales in the reporting period. On the basis of retail comp store sales, i.e. including retail areas opened or taken over before December 31, 2014, sales in the Group's own retail business declined by 8% year on year in the reporting currency. In currency-adjusted terms, this was a decline of 6%.

Currency-adjusted decline in wholesale channel sales

Sales in the **wholesale channel** declined in fiscal year 2016 in the reporting currency and in local currencies. The incoming orders and thus, the share of wholesale business in consolidated sales contracted year on year in fiscal year 2016. This was mainly due to muted global demand on the part of wholesale partners and measures to enhance distribution in American wholesale business. In addition, the takeover of selling space previously operated by wholesale partners caused a shift in sales from wholesale business to the Group's own retail business.

License business up 12 %

Sales in **license business** increased in fiscal year 2016 in the Group's reporting currency and in local currencies. The share of license business in Group sales rose slightly year on year. In particular, there was double-digit growth in license income from fragrances.

SALES BY BRAND AND BRAND LINES

03|03 SALES BY BRAND AND BRAND LINES (in EUR million)

	2016	**In % of sales**	2015	In % of sales	Change in %	Currency-adjusted change in %
BOSS	1,746.1	65	2,012.0	72	(13)	(11)
BOSS Green	341.5	13	267.9	9	27	32
BOSS Orange	225.3	8	241.5	9	(7)	(5)
HUGO	379.9	14	287.3	10	32	34
TOTAL	**2,692.8**	**100**	**2,808.7**	**100**	**(4)**	**(2)**

HUGO and BOSS Green with high double-digit sales growth

The Group sales figures in the 2016 fiscal year came under pressure from declines in the core BOSS brand. These were mainly related to scaling back distribution in the wholesale business, particularly in the U.S. Sales of BOSS Green and HUGO, on the other hand, recorded solid double-digit growth. Despite the increase in sales in the wholesale business, BOSS Orange declined.

SALES BY MENSWEAR AND WOMENSWEAR

03|04 SALES BY MENSWEAR AND WOMENSWEAR (in EUR million)

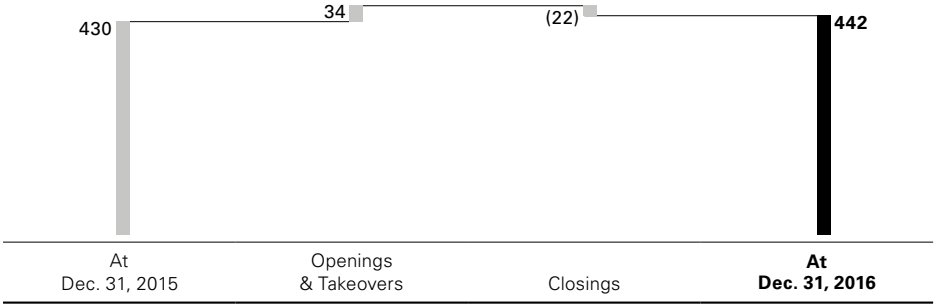
	2016	**In % of sales**	2015	In % of sales	Change in %	Currency-adjusted change in %
Menswear	2,393.6	89	2,501.0	89	(4)	(2)
Womenswear	299.2	11	307.7	11	(3)	(1)
TOTAL	**2,692.8**	**100**	**2,808.7**	**100**	**(4)**	**(2)**

NUMBER OF GROUP 'S OWN RETAIL STORES

Network of freestanding retail stores grows by a net figure of 12 stores in 2016

In fiscal year 2016, the number of the Group's own **freestanding retail stores** rose by a net figure of 12 to 442 (2015: 430).

03|05 NUMBER OF GROUP'S OWN FREESTANDING RETAIL STORES



In addition to 26 organic new openings, takeovers of eight freestanding retail stores previously operated by franchise partners contributed to the increase in selling space. The focus of expansion was on Europe and Asia/Pacific. At the same time, 22 freestanding retail stores were closed. In most cases, the Group made use of expiring leases.

Including shop-in-shops and outlets, the **total selling area** of the Group's own retail stores rose by 1 % to around 154,000 sqm (December 31, 2015: 152,000 sqm). In the past fiscal year, **selling-space productivity** in the Group's own retail business amounted to around EUR 10,900 per square meter (2015: EUR 11,500 per sqm).

EARNINGS DEVELOPMENT

03|06 INCOME STATEMENT (in EUR million)

	2016	**In % of sales**	2015	In % of sales	Change in %
Sales	**2,692.8**	**100.0**	**2,808.7**	**100.0**	**(4)**
Cost of sales	(915.3)	(34.0)	(955.9)	(34.0)	4
Gross profit	**1,777.5**	**66.0**	**1,852.8**	**66.0**	**(4)**
Selling and distribution expenses	(1,175.5)	(43.6)	(1,136.6)	(40.5)	(3)
Administration expenses	(271.8)	(10.1)	(264.3)	(9.4)	(3)
Other operating income and expenses	(66.7)	(2.5)	(4.2)	(0.2)	<(100)
Operating result (EBIT)	**263.5**	**9.8**	**447.7**	**15.9**	**41**
Financial result	**(7.9)**	**(0.3)**	**(27.7)**	**(1.0)**	**72**
Earnings before taxes	**255.6**	**9.5**	**420.0**	**14.9**	**(39)**
Income taxes	(62.0)	(2.3)	(100.6)	(3.5)	38
Net income	**193.6**	**7.2**	**319.4**	**11.4**	**(39)**
Earnings per share (EUR)[1]	**2.80**		**4.63**		**(40)**
EBITDA	**432.7**	**16.1**	**589.9**	**21.0**	**(27)**
EBITDA related special items	(60.4)	(2.2)	(4.2)	(0.2)	<(100)
EBITDA before special items	**493.1**	**18.3**	**594.1**	**21.2**	**(17)**
Income tax rate in %	**24**		**24**		

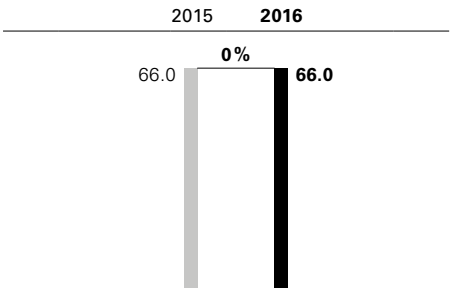
[1] Basic and diluted earnings per share.

Stable gross profit margin

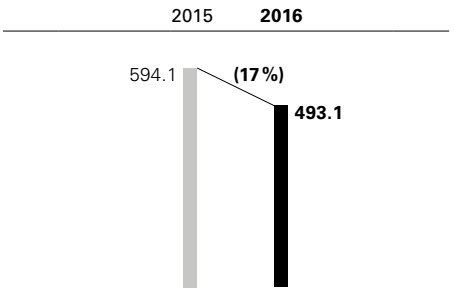
The **gross profit margin** remained stable at 66.0 % in fiscal year 2016 compared with the prior year. Positive effects stemming from the rising share of sales in the Group's own retail business, where HUGO BOSS generates a higher gross profit margin than in the wholesale channel, were offset by the reductions in sales prices in Asia with the 2016 spring collection and the negative inventory valuation effects. The volume of discounts remained virtually the same year on year despite a market environment characterized by high price reductions.

03|07 DEVELOPMENT GROSS PROFIT MARGIN AND EBITDA BEFORE SPECIAL ITEMS

(Gross profit margin in %)



(EBITDA before special items in EUR million)



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

Selling and distribution expenses in fiscal year 2016 were up year on year. Relative to sales, they rose from 40.5 % to 43.6 %, primarily as a result of the lower sales. In particular, the expansion of the Group's own retail business contributed to the 6 % increase in selling expenses in the reporting period. Relative to sales, selling expenses accounted for 34.2 % (2015: 31.1 %). Marketing expenses were more or less stable compared with the comparable prior-year period. At 6.7 % they were slightly down as a proportion of sales compared with the prior year (2015: 6.8 %). Logistics expenses rose by 1 % over the comparable prior-year period and, at 2.8 % of sales, were up on the prior year (2015: 2.6 %). This was primarily due to expenses in connection with the insourcing of order processing in European online business in the early summer. **➔ Notes to the consolidated financial statements, Note 2**

Slight increase in administration expenses

Administration expenses in fiscal year 2016 were up by 3 % year on year. The increase in general administration expenses was limited in fiscal year 2016 thanks to the measures that had been taken. At 7.7 %, they were up compared to the prior-year (2015: 7.1 %). Research and development costs incurred in the creation of fashion collections decreased by 1 % compared to the prior year, accounting for 2.4 % of sales, slightly more than in the prior year (2015: 2.3 %). **➔ Notes to the consolidated financial statements, Note 3**

The net expense arising from **other operating expenses and income** came to EUR 67 million (2015: EUR 4 million). Expenses arose in particular in connection with the decision to close around 20 freestanding retail stores around the world that had previously exerted a material negative effect on the result of the Group's own retail business. The expenses arising from the recognition of provisions, in particular for payments to landlords or the fulfillment of the leasing contract by subletting below the rental price as well as payments already made amounted to EUR 42 million and were mainly attributable to the Asia/Pacific region. In addition to this, impairments of EUR 6 million were recognized on store fittings, predominantly in Asia and Europe. Other operating expenses of EUR 11 million arose in connection with changes to the Managing Board in the period under review. Additional other operating expenses arose as a result of organizational changes in the regions. **→ Notes to the consolidated financial statements, Note 4**

17% decrease in EBITDA before special items

The downturn in **EBITDA before special items** is due to the decline in sales, which also led to a drop in **EBIT** and **EBITDA**. The rise in costs was kept within limits thanks to measures to improve cost efficiency. At 18.3%, the **adjusted EBITDA margin** was down 290 basis points on the prior year (2015: 21.2%). **Amortization and depreciation** came to EUR 169 million, up 19 % on the comparable prior-year period due to increased capital expenditure in the prior year and increased impairments recognized on property, plant and equipment in the Group's own retail business (2015: EUR 142 million).

Weaker exchange rate exerts easing pressure on financial result

The **financial result**, measured as the net expense after aggregating the interest result and other financial items, improved in fiscal year 2016. This was attributable to significantly weaker exchange rate effects as well as reduced interest expense due to the improved conditions achieved in the syndicated credit facility renewed in the fourth quarter of fiscal year 2015. **→ Notes to the consolidated financial statements, Note 5**

Group's income tax rate stable

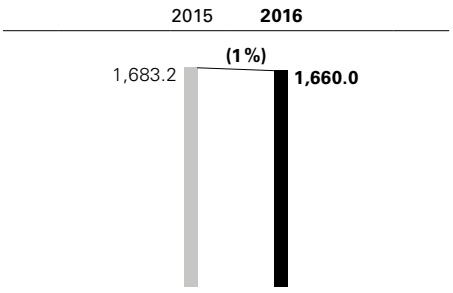
At 24 %, the **Group's income tax rate** was unchanged over the prior year (2015: 24%). The shares of earnings of companies of the HUGO BOSS Group in Germany and abroad had a neutral impact on the Group's tax rate in fiscal year 2016 due to regional differences in development. **Group´s net income** for the fiscal year 2016 also came in below the prior-year level.

SALES AND PROFIT DEVELOPMENT OF THE BUSINESS SEGMENTS

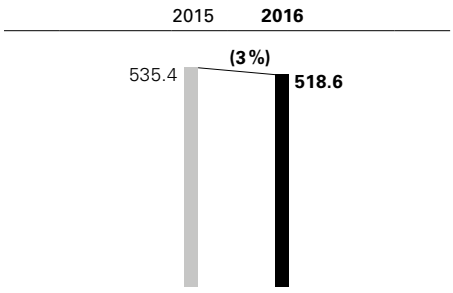
EUROPE

03|08 SALES AND PROFIT DEVELOPMENT EUROPE

(Sales in EUR million)



(Profit development in EUR million)



Currency-adjusted increase in the Group's own retail business

Sales in the **Group's own retail business** climbed slightly to EUR 957 million in Europe in the year under review (2015: EUR 956 million). This is equivalent to a 4 % increase in local currencies. This favorable performance was due in particular to continued increase in selling space. Sales with customers in the **wholesale channel decreased** in the reporting currency by 3 % to EUR 703 million (2015: EUR 727 million). Currency-adjusted sales fell by 1 %.

Great Britain still the fastest growing core market within the region

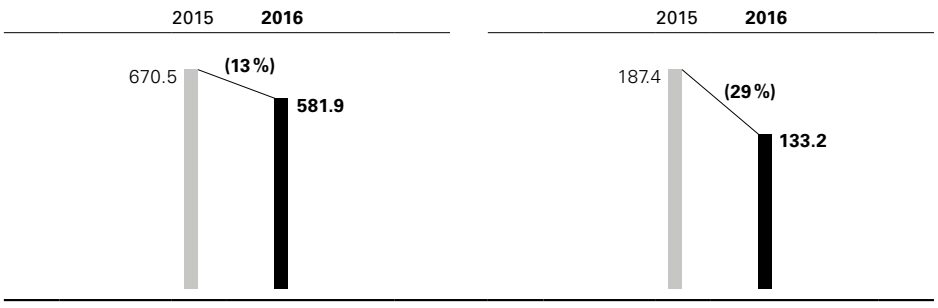
At EUR 448 million, sales in **Germany** were down 4 % on the comparable prior year (2015: EUR 465 million). In the face of a difficult market environment, both retail and wholesale business declined. In **Great Britain**, both the Group's own retail business and the business with wholesale partners recorded sales growth. Sales in Great Britain in the Group's reporting currency reached EUR 317 million, down 4 % on the prior year (2015: EUR 332 million). This was due to the depreciation of pound sterling against the euro. However, sales were up 8 % in the local currency. In **France**, sales came to EUR 173 million, down 3 % on the prior year (2015: EUR 179 million). Growth in the Group's own retail business was unable to make up for the decline in wholesale business in this market. At EUR 131 million, sales in the **Benelux countries** were down by 8 % on the prior year (2015: EUR 141 million). Both the continued consolidation in wholesale business and the negative trend in the Group's own retail business contributed to this.

Segment profit slightly down on prior year

The **segment profit** for Europe came to EUR 519 million, down 3 % year on year (2015: EUR 535 million). This was due to higher selling and distribution expenses, particularly in connection with the Group's own retail business. At 31.2 %, the adjusted EBITDA margin was down 60 basis points on the prior year (2015: 31.8 %).

AMERICAS

03|09 SALES AND PROFIT DEVELOPMENT AMERICAS



Sales in the **Group's own retail business** decreased by 4 % in the 2016 fiscal year to EUR 374 million (2015: EUR 391 million). This is equivalent to a currency-adjusted decline of 3 % in sales. Sales in the **wholesale channel** reached EUR 208 million over the same period (2015: EUR 279 million). Accordingly, sales in this distribution channel decreased by 25 % in the Group currency and by 24 % in local currencies. This was due to more selective distribution, particularly of the BOSS core brand, softening demand on the part of wholesale partners and takeovers of shop-in-shops.

3 % currency-adjusted decline in sales in the Group's own retail business

In the **United States** sales in the reporting currency decreased in the Group's reporting currency and the local currency by 17 % and totaled EUR 440 million at the end of the twelve-month period (2015: EUR 530 million). This decline was driven by declining sales in the Group's retail business and in the wholesale business. Sales in **Canada** in the Group's reporting currency totaled EUR 75 million, down 4 % year on year (2015: EUR 78 million). In currency-adjusted terms, sales in this market also fell by 1 %. The positive sales trend in the Group's own retail business could not fully offset the double-digit sales decline in the wholesale channel. In **Central and South America**, sales increased by 7 % in the reporting currency to EUR 67 million (2015: EUR 63 million). This corresponds to a currency-adjusted sales increase of 23 %. This favorable performance was driven by takeovers in connection with the expansion of the Group's own retail business in fiscal year 2015 as well as a substantial increase in comp store sales.

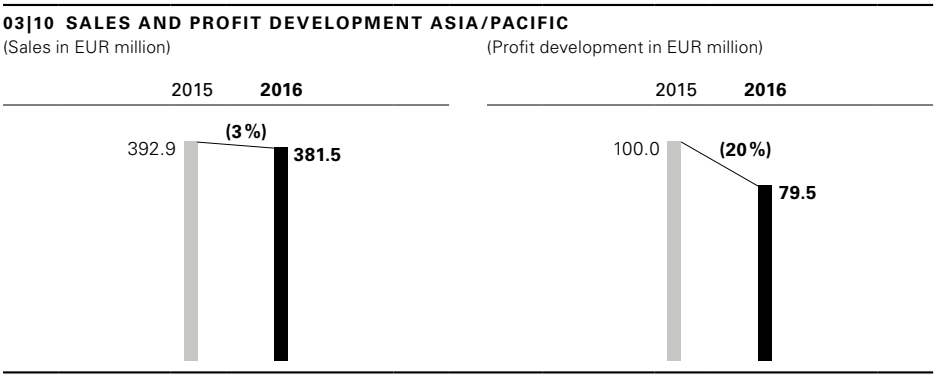
Lower sales in the United States

At EUR 133 million, **segment profit** in the Americas was down 29 % on the prior year (2015: EUR 187 million). This was due to lower sales in the United States. The adjusted EBITDA margin for the region, at 22.9 %, was 510 basis points below that of the prior year (2015: 28.0 %).

Segment profit burdened by sales development in the United States

ASIA/PACIFIC

03|10 SALES AND PROFIT DEVELOPMENT ASIA/PACIFIC



3 % increase in Group's own retail business

Sales in the **Group's own retail business** in this region rose by 2 % to EUR 347 million in the reporting currency (2015: EUR 341 million). This is equivalent to growth of 3 % in local currencies compared to the prior year. At EUR 35 million, sales with **wholesale** partners were, on the other hand, down 32 % year on year in the Group's reporting currency and the local currency (2015: EUR 52 million). Takeovers of selling space previously operated by wholesale partners made a material contribution towards this.

Disparate sales development in the individual market

At EUR 211 million, sales in **China** were down 9 % on the prior year (2015: EUR 232 million). This translates into a currency-adjusted decline of 6 %. Business in mainland China was substantially stronger than in Hong Kong and Macau. These latter two markets are also considered to be China. At EUR 60 million, sales in **Oceania** decreased by 1 % in the Group's reporting currency and the local currency over the prior year (2015: EUR 61 million). At EUR 47 million, sales in **Japan** were up 10 % on the prior year (2015: EUR 43 million). This translates into a currency-adjusted decline of 1 %.

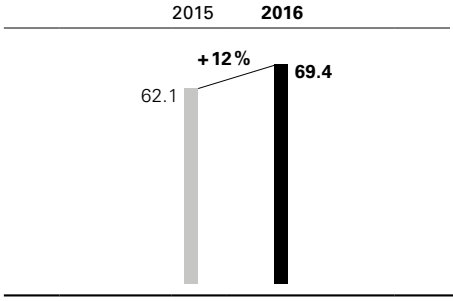
Lower segment profit

At EUR 80 million, **segment profit** in Asia/Pacific was down 20 % on the prior year (2015: EUR 100 million). This was largely due to lower sales as well as price adjustments. At 20.8 %, the adjusted EBITDA margin in this region was down 460 basis points on the prior year (2015: 25.4 %).

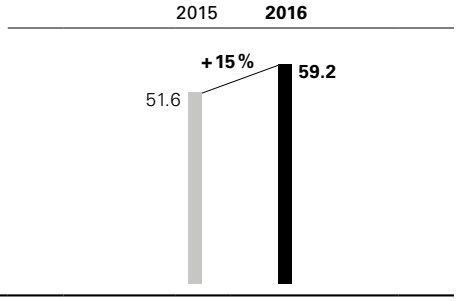
LICENSES

03|11 SALES AND PROFIT DEVELOPMENT LICENSES

(Sales in EUR million)



(Profit development in EUR million)



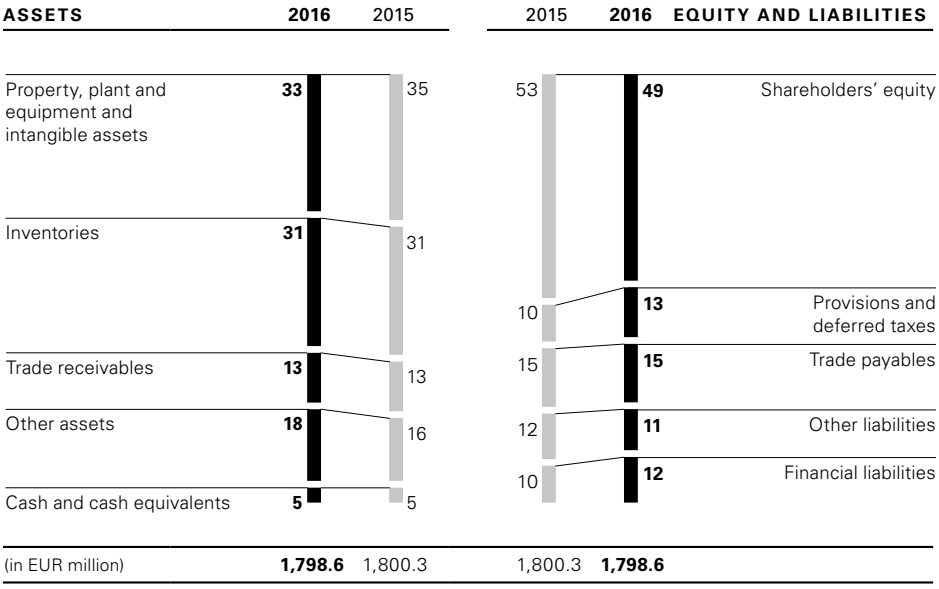
License business performed well in fiscal year 2016. → **Group Earnings Development, sales by distribution channel**

License business up 12%

At EUR 59 million, the license **segment profit** was 15% up on the prior year (2015: EUR 52 million).

NET ASSETS

03|12 STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31 (in %)



Decrease in property, plant and equipment and intangible assets due to lower investments

The **total assets** remained virtually unchanged at the end of the fiscal year compared to the prior-year period. A 3% drop in **property, plant and equipment and intangible assets** due to the decline in investments was compensated by an increase in **other assets**.

At 58%, the **share of current assets** was unchanged over the prior year (December 31, 2015: 58%). Accordingly, the **share of non-current assets** came to 42% as of December 31, 2016 (December 31, 2015: 42%). The **equity ratio** fell to 49% at year-end and was therefore down on the prior-year period (December 31, 2015: 53%).

03|13 TRADE NET WORKING CAPITAL (in EUR million)

	2016	2015	Change in %	Currency-adjusted change in %
Inventories	568.0	559.5	2	1
Trade receivables	228.1	239.6	(5)	(4)
Trade payables	271.7	271.5	0	0
Trade net working capital	**524.4**	**527.6**	**(1)**	**(1)**

Against the backdrop of declining sales, the increase in **inventories** was held within limits thanks to consistent stock management during the past fiscal year. Double-digit declines in inventories were recorded in the Americas and Asia/Pacific. The trend in **trade receivables** was mainly due to declining sales in the wholesale channel and continued strict management of receivables. The **trade payables** remained unchanged at year-end compared to the prior-year period.

Positive development of trade net working capital

Compared to the prior year, the **trade net working capital** therefore recorded a positive development and was 1% down on the prior-year value in the reporting currency and in local currencies too. The moving average of **trade net working capital as a percentage of sales** on the basis of the last four quarters, at 19.8% at year-end, was 30 basis points higher than in the prior year (2015: 19.5%).

The increase in **other assets** is mainly attributable to an increase in deferred tax assets as a result of additional temporary differences and higher income tax assets from advance payments.

The increase in **provisions** primarily reflects the decision to close around 20 freestanding retail stores around the world ahead of schedule. **→ Notes to the consolidated financial statements, Note 17**

The decline in **other liabilities** compared to the prior year is primarily attributable to lower income taxes due to business development.

Total **current and non-current financial liabilities** increased by 20% to EUR 211 million as of the reporting date (December 31, 2015: EUR 176 million). This was materially driven by the development of earnings in the past fiscal year. As of the reporting date, EUR 80 million of the syndicated loan had been used (December 31, 2015: EUR 75 million). The Group has additional liquidity secured in the form of bilateral lines of credit with a total volume of EUR 269 million (December 31, 2015: EUR 257 million), of which EUR 117 million had been drawn as of December 31, 2016, due to favorable interest rates (December 31, 2015: EUR 89 million). Apart from the undrawn amounts from the lines of credit amounting to EUR 523 million (December 31, 2015: EUR 543 million), as of the reporting date the Group has more than EUR 83 million in **liquid funds** (December 31, 2015: EUR 81 million).

FINANCIAL POSITION

FINANCIAL MANAGEMENT AND FINANCING PRINCIPLES

Central bundling of global financial management

The core purpose of Group-wide financial management is to secure its strong financial profile, creditworthiness and the related financial stability of the Group. It is systematically geared toward supporting the strategic and operational development of the Company and pursues the goal of ensuring access to capital and favorable financing conditions at all times. It comprises cash and liquidity management and the management of market price risks and default risks in addition to corporate finance. At HUGO BOSS, these activities are 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. In its capacity as an "in-house bank", HUGO BOSS International B.V. provides funds to Group companies with increased financing needs in the form of intercompany loans. These loans are issued in the local currency of the distribution company concerned and generally take the form of an overdraft facility.

The corporate treasury department optimizes and centralizes payment flows and secures Group-wide liquidity by its cash and liquidity management. The cash inflows from operating activities 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**. Funds are mainly drawn in the Group currency, the euro. **→ Notes to the consolidated financial statements, Notes 19 and 21**

Syndicated loan secures long-term financial flexibility

The Group signed a syndicated credit facility for EUR 450 million in October 2015. The revolving credit facility with an international syndicate of banks has a basic term of five years and has two renewal options of one year each. The first of these options was exercised during the reporting year.

FINANCING CONDITIONS

Total leverage up slightly on the prior-year period

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. At 0.2, the total leverage ratio was still substantially below the maximum permissible as of the reporting date (December 31, 2015: 0.1). **→ Notes to the consolidated financial statements, Note 15**

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 subject to variable interest rates amounting to EUR 171 million (December 31, 2015: EUR 135 million), a volume of approximately EUR 10 million was hedged against an increase in interest rates using payer swaps as of December 31, 2016 (December 31, 2015: EUR 10 million). There is no exposure to interest rate risks from other fixed-interest loans. **→ Notes to the consolidated financial statements, Note 19**

Land charges in connection with land and buildings amount to EUR 35 million (2015: EUR 39 million).

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Financing is supplemented by operating leases for the Group's own retail locations and for logistics and administration properties. **→ Notes to the consolidated financial statements, Note 23**

CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated 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 adjusted for currency effects, these figures cannot be derived from the statement of financial position.

03|14 STATEMENT OF CASH FLOW (in EUR million)

	2016	2015
Cash flow from operating activities	372	424
Cash flow from investing activities	(152)	(216)
Cash flow from financing activities	(218)	(255)
Change in cash and cash equivalents	**2**	**(47)**
Cash and cash equivalents at the beginning of the period	81	129
Cash and cash equivalents at the end of the period	83	81

Positive development of free cash flow

The **free cash flow**, measured as the cash inflow from operating activities and the cash outflow from investing activities was, at EUR 220 million, 6% up on the prior-year level (2015: EUR 208 million).

Cash inflow from operating activities below prior-year level

At EUR 372 million, **cash flow from operating activities** was down 12% on the prior-year period (2015: EUR 424 million). The positive effects of the development of inventories and receivables and a decreased cash outflow due to paid income taxes only partially compensated for the lower profit. As a result of a low amount of debt and lower market interest rates, the net cash outflow from interest expenses and income was down on the prior year at EUR 1 million as of the reporting date (2015: EUR 3 million).

Cash outflow from investing activities significantly lower

The **cash outflow from investing activities** came to EUR 152 million, substantially lower than in the prior-year period (2015: EUR 216 million). This was materially driven by the total capital expenditure on property, plant and equipment, which decreased year-on-year. In addition, there was a lower outflow of funds from property, plant and equipment and current assets acquired as part of the acquisition of other business units.

Stable dividend payment in the past fiscal year

The **cash outflow from financing activities** in the fiscal year 2016 totaled EUR 218 million (2015: EUR 255 million). This was due to an increase in current and non-current financial liabilities over the prior year. At EUR 250 million, the dividend payment was unchanged over the prior year.

The **cash and cash equivalents** came to EUR 83 million as of the reporting date (December 31, 2015: EUR 81 million).

NET FINANCIAL LIABILITIES

Earnings development causes increase in net financial liabilities

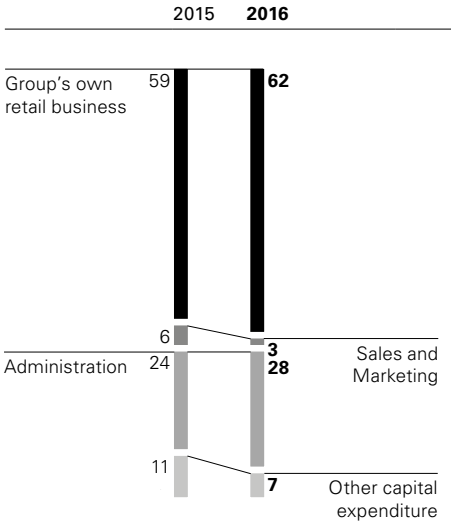
The **net financial liabilities** are the total of all financial liabilities due to banks less cash and cash equivalents. Liabilities from finance leases are not included in the calculation of this indicator. The net financial liabilities increased as of the end of the fiscal year 2016 to EUR 113 million (December 31, 2015: EUR 82 million). This was materially driven by the development of earnings in the past fiscal year and the dividend payment, which was unchanged over the prior year. At EUR 197 million, financial liabilities due to banks were up on the prior-year level (December 31, 2015: EUR 164 million).

CAPITAL EXPENDITURE

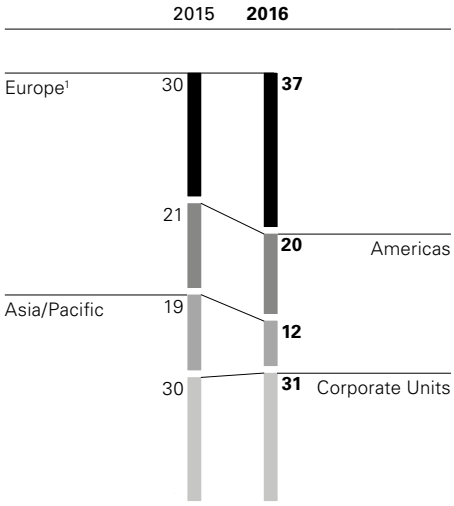
Lower investments in the fiscal year 2016

In the past fiscal year, HUGO BOSS invested EUR 157 million in property, plant and equipment and intangible assets (2015: EUR 220 million). The investment volume was thus substantially lower than in the prior year. This was primarily due to reduced expansion activities in the Group's own retail business and one-off investments in the prior year that were not repeated in the fiscal year 2016.

03|15 CAPITAL EXPENDITURE BY FUNCTIONAL AREA
(in %)



CAPITAL EXPENDITURE BY REGION
(in %)



[1] Including Middle East and Africa.

Capital expenditure remains focused on own retail business

With a total capital expenditure volume of EUR 98 million, the **global expansion and modernization of the Group's own retail business** also remained the focus of capital expenditure in the past fiscal year (2015: EUR 130 million). Capital expenditure on **new openings** in the Group's own retail business came to EUR 51 million (2015: EUR 71 million). EUR 47 million was spent on the **renovation and modernization** of existing retail locations during the same period (2015: EUR 59 million).

Expansion of the IT infrastructure, focusing on the online business

Capital expenditure on the **production, logistics and distribution structure** as well as on **research and development** came to EUR 15 million in 2016 (2015: EUR 38 million). The reason for the decline was one-off investments made in the prior year that were not repeated in the fiscal year 2016. Capital expenditure on **administration expenses** came to EUR 44 million in the past fiscal year (2015: EUR 52 million). This mainly includes investments of EUR 31 million in the IT infrastructure (2015: EUR 34 million), including for the takeover of material parts of the e-commerce value chain in Europe in the early summer of 2016 as well as further measures for the roll-out of omnichannel services.

The accumulated amortization and depreciation on property, plant and equipment and intangible assets including own capitalized cost came to EUR 910 million (2015: EUR 793 million).

→ Notes to the consolidated financial statements, Note 9

Existing obligations from investment projects that had commenced as of December 31, 2016, amounted to EUR 3 million (December 31, 2015: EUR 8 million).

COMPENSATION REPORT

The compensation report describes the main features of the compensation system for the Managing Board and Supervisory Board of HUGO BOSS AG. It also explains the structure, composition and amount of the compensation components. The report is based on the recommendations of the German Corporate Governance Code in the version dated May 5, 2015, 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 quantitative disclosures pursuant to IAS 24 are presented in the notes to the consolidated financial statements.

COMPENSATION OF THE MANAGING BOARD

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

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

In the fiscal year 2015, the compensation system for members of the Managing Board was examined and further developed by the Supervisory Board in connection with the conclusion of new service agreements for Mark Langer and Christoph Auhagen, both members of the Managing Board. On the basis of discussions in the Supervisory Board and the proposals made by the Personnel Committee, new service agreements were concluded in October 2015 with the Managing Board members Mark Langer and Christoph Auhagen with effect from January 1, 2016, which provide for a compensation system that is partly new in its conception. The service contact for Claus-Dietrich Lahrs, who was Chairman of the Managing Board at that time, remained unchanged until his departure on February 29, 2016. The new service agreements concluded in the fiscal year 2016 with Bernd Hake and Ingo Wilts correspond to the new compensation system, which has been applicable since January 1, 2016.

The compensation system which has been applicable since the fiscal year 2016 was approved with a majority by the Annual Shareholders' Meeting on May 19, 2016.

MAIN FEATURES OF THE COMPENSATION SYSTEM FOR THE MANAGING BOARD

The goal of further developing the compensation system in 2015 was particularly to align the Managing Board's compensation more closely to the Company's sustainable growth by means of setting relevant objectives in the field of long-term variable compensation. At the same time, the EBITDA before special items was adopted as a target component of the short-term variable compensation so as to have a better way of responding to short-term developments. Also, during the design process, a great deal of importance was attached to the fact that above-average performance would be rewarded more comprehensively, but variable compensation would cease to be paid more quickly than before in the event of below-average performance.

The new compensation structure applies to all active members of the Managing Board. It also applies to any future appointments to the Managing Board. Since January 1, 2016, in addition to non-performance-related (fixed) compensation components, the compensation structure has provided for core performance-related compensation components in the form of a short-term incentive program (STI) and a long-term incentive program (LTI). In this regard, the average share of the fixed compensation components in the total compensation amounts to 38%, while the average share of compensation from the STI and from the LTI come to 26% and 36% respectively, whereby a target achievement of 100% each is assumed for the information for the STI and the LTI.

The further development of the Managing Board's compensation was supported by a compensation consultant whose independence was respected by the Supervisory Board and the Company.

Unless specified otherwise, the following information relates to the compensation system that has applied to all members of the Managing Board in equal measure since the fiscal year 2016.

The Managing Board's total compensation is made up of non-performance-related (fixed) compensation components and performance-related (variable) compensation components.

NON-PERFORMANCE-RELATED COMPENSATION COMPONENTS

The fixed compensation components essentially remain unchanged in terms of their structure when compared to prior years. They still 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 also receive fringe benefits to a small extent which they individually pay tax on as per the applicable tax regulations if they derive any financial advantage from private use of the same. The fringe benefits primarily include private use of the company car, supplementary payments to health and nursing care insurance, conclusion of and contributions to accident and directors' and officers' (D&O) liability insurance as well as, to a small extent, other equipment and services needed to fulfill their duties as members of the Managing Board. In accordance with

Sec. 93 (2) Clause 3 AktG ["Aktiengesetz": German Stock Corporation Act], the deductible for the D&O insurance is 10% of the relevant loss, but no more than one-and-a-half times the fixed annual compensation.

PERFORMANCE-RELATED COMPENSATION COMPONENTS

SHORT-TERM VARIABLE COMPENSATION – SHORT-TERM INCENTIVE PROGRAM (STI)

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

- Sales (the sales recognized in the consolidated financial statements using the exchange rates underlying the budget)
- EBITDA before special items (consolidated net income before interest, taxes, depreciation, amortization and special items)
- Trade net working capital (sum of raw and finished goods and trade receivables less trade payables) → **Group management**

The targets for sales and trade net working capital are weighted at 25% each. The EBITDA before special items is included in the STI's target achievement with a weighting of 50%.

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

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

If the target is achieved in full (100%) for the 2016 STI, a total amount of EUR 1,083 thousand shall be paid out (Mark Langer EUR 600 thousand, Bernd Hake EUR 333 thousand, Ingo Wilts EUR 150 thousand).

The degree of target achievement for the individual target components for fiscal year 2016 is summarized in the table below.

03|16 TARGET ACHIEVEMENT FOR STI TARGET COMPONENTS

Target component	Target weighting	Target achievement for 2016
Sales	25%	0%
EBITDA	50%	0%
Trade Net Working Capital	25%	92%
TOTAL	**100%**	**23%**

The average degree of target achievement for fiscal year 2016 is 23% and thus below the minimum target of 75%. Consequently, no annual bonus will be paid to Mark Langer and Bernd Hake. Taking into account the economic disadvantages he suffered due to having left his former employer early, Ingo Wilts was guaranteed a minimum degree of target achievement of 75% for fiscal year 2016. A payment of EUR 113 thousand will be made.

LONG-TERM VARIABLE COMPENSATION – LONG-TERM INCENTIVE PROGRAM (LTI)

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

The Supervisory Board has defined the following as target components for the 2016 to 2018 tranche:

- Shareholder return for the HUGO BOSS share compared to the MSCI World Textiles, Apparel & Luxury Goods Performance Index (relative total shareholder return (RTSR))
- Return on capital employed (ROCE)
- Employee satisfaction
- The Company's performance in the field of sustainability

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

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

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

The individual LTI budget for the 2016 to 2018 period is EUR 850 thousand for Mark Langer, EUR 458 thousand for Bernd Hake and EUR 206 thousand for Ingo Wilts. In the case of Bernd Hake and Ingo Wilts, the LTI budget is determined on a pro rata basis from the start of their Managing Board activities in 2016.

03|17 SHARE-BASED COMPENSATION COMPONENT FOR THE FISCAL YEAR 2016

	Mark Langer Chairman of the Managing Board (since May 19, 2016)[1]	Bernd Hake Member of the Managing Board (since March 1, 2016)	Ingo Wilts Member of the Managing Board (since August 15, 2016)	
	2016	**2016**	**2016**	**TOTAL**
Fair values for the performance share plan when granted (in EUR thousand)	667	233	160	**1,061**
Number of virtual shares on the grant date	10,623	6,475	3,900	**20,998**
Total cost of share-based compensation (in EUR thousand)	110	64	19	**193**

[1] Member of the Managing Board since January 15, 2010.

Multiple-year bonus

Moreover, for Mark Langer, the Chairman of the Managing Board, the multiple-year bonuses for the fiscal years 2014 and 2015 have not been paid yet. The multiple-year bonus is the existing long-term variable compensation under the compensation system applicable until the end of the fiscal year 2015. The multiple-year bonus is assessed over a period extending over several years and is measured based on the development of quantitative targets defined for a three-year period. The quantitative targets are geared toward increasing the enterprise value and are tied to the development of the two performance indicators – sales and EBITDA before special items – over a period of three years. The EBITDA before special items is weighted at 75%, while sales has a weighting of 25% in the multiple-year bonus. The amount of variable compensation for a fiscal year depends on the degree to which the predefined targets for the indicators sales and EBITDA before special items are achieved over a period of three years. For the three-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 the specified maximum threshold is reached or exceeded.No multiple-year bonus is paid out if the indicators reach or drop below the specified minimum threshold.

Installments for the expected target multiple-year bonus were paid within a week of the consolidated financial statements for the first fiscal year of the three-year period being approved. The actual target achievement 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 achievement 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 installments exceed the amount of the vested multiple-year bonus for the three-year period, the member of the Managing Board in question repays the difference to HUGO BOSS AG within one week of the consolidated financial statements for the third fiscal year being approved.

If the target is achieved in full (100%) for the 2015 to 2017 multiple-year bonus, an amount of EUR 600 thousand is paid out.

A degree of target achievement of 29% for EBITDA before special items and 23% for sales was recorded for the 2014 to 2016 multiple-year bonus. This results in a payment of EUR 166 thousand, which is determined based on the weighted target achievement of 28% and included in the total compensation for the fiscal year 2016.

PENSION PROVISION AND PROVISION FOR SURVIVING DEPENDENTS

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

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

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

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

CONTRIBUTION-BASED PENSION COMMITMENTS

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

The amount of retirement benefit in this regard corresponds to the amount accumulated by means of the individual employer's pension liability insurance. This results from the total unpaid pension contributions per year plus an annual interest rate depending on the insurance tariff in question. A member of the Managing Board shall be entitled to retirement benefit at or after a fixed age limit of 65 years or if they become permanently unable to work due to illness or accident and leave the Company before reaching the age limit.In the event of the death of the member of the Managing Board, their spouse or registered civil partner under the Civil Partnership Act and their surviving children shall be entitled to a survivor's pension. If the member of the Managing Board leaves the Company before becoming eligible for a pension, the benefits shall still become vested if their pensionable service was longer than three years. If the member of the Managing Board leaves the Company before reaching the fixed age limit, the entitlement amount corresponds to the benefits arising from the premium-free employer's pension liability insurance at the time of departure.

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

BENEFIT-BASED PENSION COMMITMENTS FOR MARK LANGER, THE CHAIRMAN OF THE MANAGING BOARD

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

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

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

SUPPLEMENTARY PENSION PLAN

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

03|18 PENSION COMMITMENTS (in EUR thousand)

	Mark Langer Chairman of the Managing Board (since May 19, 2016)[1]		Bernd Hake Member of the Managing Board (since March 1, 2016)		Ingo Wilts Member of the Managing Board (since August 15, 2016)	
	2016	2015	**2016**	2015	**2016**	2015
Service cost under IFRS	422	412	220	–	260	–
Pension provision under IFRS	5,005	2,664	0	–	0	–

	Claus-Dietrich Lahrs Chairman of the Managing Board (until February 29, 2016)		Christoph Auhagen Member of the Managing Board (until April 22, 2016)		**TOTAL**	
	2016	2015	**2016**	2015	**2016**	2015
Service cost under IFRS	134	673	324	948	**1,360**	**2,033**
Pension provision under IFRS	0	576	0	487	**5,005**	**3,727**

[1] Member of the Managing Board since January 15, 2010.

BENEFITS IN THE EVENT OF TERMINATION OF EMPLOYMENT

In the event of premature termination of the service agreement (without there being due cause for termination of the service agreement on the Company's part), the member of the Managing Board in question shall receive severance pay amounting to their total compensation (including fringe benefits) for the duration of the original remaining term, but for no longer than 15 months, starting from the time the service agreement is terminated (severance payment cap). For these purposes, the total compensation is calculated on the basis of the total compensation received for the last full fiscal year and, where appropriate, on the basis of the predicted total compensation for the current fiscal year. The regulations are therefore in accordance with Sec. 4.2.3 of the German Corporate Governance Code.

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

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

TOTAL COMPENSATION OF MEMBERS OF THE MANAGING BOARD FOR THE FISCAL YEAR 2016 UNDER GAS 17

03|19 TOTAL COMPENSATION (in EUR thousand)

	Mark Langer Chairman of the Managing Board (since May 19, 2016)[1]		Bernd Hake Member of the Managing Board (since March 1, 2016)		Ingo Wilts Member of the Managing Board (since August 15, 2016)	
	2016	2015	**2016**	2015	**2016**	2015
Basic compensation	829	750	464	–	247	–
Fringe benefits	41	42	17	–	4	–
Total	**871**	**792**	**481**	**–**	**251**	**–**
Special compensation	**13**	**0**	**0**	**–**	**0**	**–**
STI	**0**	**122**	**0**	**–**	**113**	**–**
Thereof contractually guaranteed	0	0	0	–	113	–
Thereof variable	0	122	0	–	0	–
Multiple-year variable compensation	**834**	**111**	**233**	**–**	**160**	**–**
Thereof LTI 2016-2018	667	0	233	–	160	–
Thereof Multiple-year bonus 2014-2016	167	0	0	–	0	–
Thereof Multiple-year bonus 2013-2015	0	111	0	–	0	–
Total compensation	**1,718**	**1,025**	**714**	**–**	**524**	**–**

	Claus-Dietrich Lahrs Chairman of the Managing Board (until February 29, 2016)		Christoph Auhagen Member of the Managing Board (until April 22, 2016)		**Total compensation**	
	2016	2015	**2016**	2015	**2016**	2015
Basic compensation	300	1,800	333	1,000	**2,174**	**3,550**
Fringe benefits	9	52	15	46	**87**	**140**
Total	**309**	**1,852**	**348**	**1,046**	**2,261**	**3,690**
Special compensation	**0**	**0**	**0**	**0**	**13**	**0**
STI	**0**	**359**	**0**	**163**	**113**	**644**
Thereof contractually guaranteed	0	0	0	0	**113**	**0**
Thereof variable	0	359	0	163	**0**	**644**
Multiple-year variable compensation	**0**	**325**	**0**	**148**	**1,228**	**584**
Thereof LTI 2016-2018	0	0	0	0	**1,061**	**0**
Thereof Multiple-year bonus 2014-2016	0	0	0	0	**167**	**0**
Thereof Multiple-year bonus 2013-2015	0	325	0	148	**0**	**584**
Total compensation	**309**	**2,536**	**348**	**1,357**	**3,613**	**4,918**

[1] Member of the Managing Board since January 15, 2010.

OTHER COMPENSATION COMPONENTS

In the fiscal year 2016, Mark Langer, the Chairman of the Managing Board, was entitled to an advance payment of the multiple-year bonus for the 2015–2017 fiscal year totaling EUR 540 thousand (2015: EUR 540 thousand advance payment toward the 2014–2016 multiple-year bonus), which will ultimately be measured by the target achievement for the 2015–2017 multiple-year period. This advance payment was offset against the advance payment amount toward the 2013–2015 multiple-year bonus exceeding the actual target achievement and totaling EUR 429 thousand. As of the reporting date, the advance payments granted toward the 2014–2016 and 2015–2017 multiple-year bonuses therefore totaled EUR 1,080 thousand (2015: EUR 5,688 thousand). The advance payments for Claus-Dietrich Lahrs and Christoph Auhagen, the members of the Managing Board who left the Company in 2016, were offset against the severance payments. Mr. Langer also received a one-time special compensation of EUR 13 thousand for the additional responsibilities that he took over from the time that Claus-Dietrich Lahrs departed as CEO until Mr. Langer was appointed CEO.

TOTAL COMPENSATION OF FORMER MEMBERS OF THE MANAGING BOARD

Claus-Dietrich Lahrs left the Managing Board on February 29, 2016, and his service agreement ended with effect from the same date. In addition to the reported total compensation as an active member of the Managing Board for the fiscal year 2016, he received severance payments amounting to EUR 6,850 thousand. These consist of a severance payment amounting to EUR 5,916 thousand under the severance payment cap, pension contributions amounting to EUR 268 thousand for the months of March to July 2016 and compensation for a restraint on competition grace period amounting to EUR 666 thousand. The severance payment was reduced by advance payments received toward the multiple-year bonuses agreed under the existing compensation system, less the pro-rata value reached of EUR 2,265 thousand. Furthermore, Mr. Lahrs received the contractually agreed basic compensation amounting to EUR 600 thousand for the months of March to June 2016, the pro-rata variable compensation of EUR 676 thousand for the fiscal year 2016, the pro-rata reached 2014-2016 multiple-year bonus of EUR 237 thousand (each under the new compensation system) and fringe benefits amounting to EUR 14 thousand.

Christoph Auhagen left the Managing Board on April 22, 2016, and his service agreement ended with effect from the same date. In addition to the reported total compensation as an active member of the Managing Board for the fiscal year 2016, he received severance payments amounting to EUR 2,366 thousand. These consist of a severance payment amounting to EUR 1,599 thousand under the severance payment cap, pension contributions amounting to EUR 567 thousand for the months of May to November 2016 and compensation for a restraint on competition grace period amounting to EUR 200 thousand. The severance payment was reduced by advance payments received toward the multiple-year bonuses agreed under the existing compensation system, less the pro-rata value reached of EUR 1,095 thousand. Furthermore, Mr. Auhagen received the contractually agreed basic compensation amounting to EUR 167 thousand for the months of May and June 2016, the

pro-rata variable compensation of EUR 482 thousand for the fiscal year 2016 (each under the new compensation system), the pro-rata reached 2014-2016 and 2015-2017 multiple-year bonuses of EUR 345 thousand of and fringe benefits amounting to EUR 4 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 the 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 as well as the membership in the committees are taken into account when calculating the compensation. The fixed and variable compensation is paid out after the end of the Annual Shareholders' Meeting that decides on the exoneration of the Supervisory Board for the past fiscal year in question. Members of the Supervisory Board who have only been members of the Supervisory Board or a committee for part of the fiscal year are paid compensation proportionately 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 are entitled to provide the Company with a separate invoice for VAT and exercise this right. The Supervisory Board received total compensation amounting to EUR 2,015 thousand for its activities in 2015. For the fiscal year 2016, the total compensation is expected to come to EUR 1,540 thousand. This figure includes a variable component of EUR 785 thousand (2015: EUR 1,332 thousand), which is measured based on 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. It was made available to the public on the website at: **http://cgs.hugoboss.com**. It is also included on pages 18 to 28 of this Annual Report.

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 below. As far as the Managing Board is concerned, there is no further need for explanations within the meaning of Sec. 176 (1) Clause 1 AktG ["Aktiengesetz": German Stock Corporation Act].

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

There are no restrictions on voting rights or the transfer of shares.

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

In the fiscal year 2016, HUGO BOSS AG was received 58 voting rights notifications pursuant to Sec. 21 et seq. WpHG ["Wertpapierhandelsgesetz": Securities Trading Act]. The respective voting rights notifications are available online at **financialreleases.hugoboss.com** and are also disclosed in the annual financial statements of HUGO BOSS AG for the fiscal year 2016.

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

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

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

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

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

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

CHANGE OF CONTROL REGULATIONS

The syndicated loan taken out by HUGO BOSS AG and HUGO BOSS International B.V. and guaranteed by HUGO BOSS AG as well as the bilateral lines of credit contain 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 agreements of the members of the Managing Board contain a provision under which, in the event of a change of control (acquisition of more than 30% of the voting rights in HUGO BOSS AG), the contracting parties are under certain circumstances granted an additional termination right and, if the service agreement is indeed terminated, the member of the Managing Board must be compensated.

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 achievement.

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 corporate strategy successfully. The early identification of risks and immediate assessment of their possible impact are the first step of active risk management forming the basis of 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 by mitigating risks as efficiently as possible.

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, cash flow. Clear thresholds describe the risk-bearing capacity of the HUGO BOSS Group and permit classification of risks into four levels from "low" 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 and notification to the Managing Board and Supervisory Board, where appropriate. In addition, all employees of the HUGO BOSS Group are obliged to be aware of risks in their behavior, especially regarding those risks that may threaten the existence of the Group. All risks and the actions taken are systematically recorded using 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.

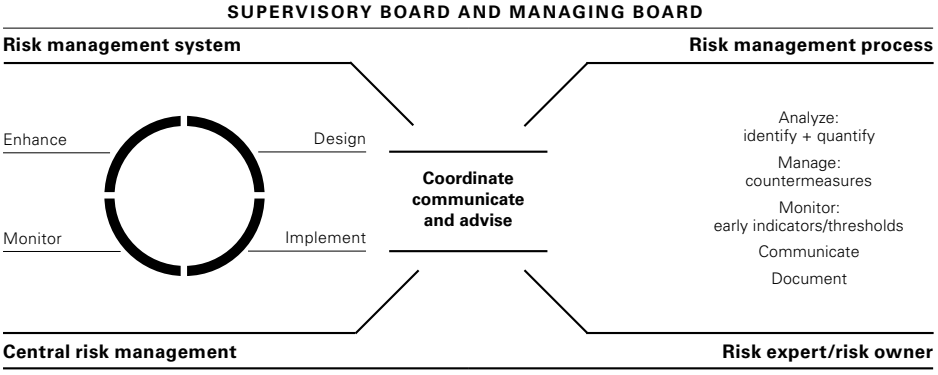
A dedicated risk manager at the headquarters of HUGO BOSS AG is responsible for the coordination of Group-wide risk management in order to be able to identify risks at an early stage and to subsequently analyze, monitor and manage them. He or she is dedicated to

developing the tools of the risk management system further and ensuring that risks are systematically identified Group-wide and recorded at regular, predefined intervals. All information concerning the risks identified in the subsidiaries worldwide converges here, allowing its timely aggregation and analysis at Group level. The central risk management team is in constant contact 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 assessment, 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|20 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 assessment is revised if necessary. To this end, an estimate is made of the likelihood of occurrence of risks on the one hand and the associated effects on the operating result (EBIT) or cash flow on the other. Any net risk as an actual risk potential is defined as the gross risk reduced by the effects of measures taken to mitigate the risks identified.

03|21 MEASUREMENT CRITERIA FOR BUSINESS RISKS

Likelihood of occurrence		Extent of financial impact	
unlikely	**≤ 20%**	low	**≤ 2.5% of planned EBIT**
possible	**> 20–40%**	moderate	**> 2.5–5% of planned EBIT**
likely	**> 40–60%**	significant	**> 5–15% of planned EBIT**
very likely	**> 60%**	high	**> 15% of planned EBIT**

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 of a risk occurring on a general basis. 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 targets. 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. In addition to this trend indicator and scenario assessment, for certain risks there is the option of incorporating a medium and long-term risk assessment into the risk management software.

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 management 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 monitors the effectiveness of the internal control, risk management and internal audit systems. 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 individual risks

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

03 |22 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 produced at the end of the fiscal year 2015, the total risk position has risen only slightly. This development can be explained by the global uncertainties that have increased perceptibly in 2016.

03|23 DEVELOPMENT AND COMPOSITION OF TOTAL RISK EXPOSURE

Risk category	Trend	Share of total risk (Expected value)
External risks	→	14.6 %
Strategic risks	→	10.8 %
Financial risks	↗	15.7 %
Operative risks	→	55.3 %
Organizational risks	→	3.6 %

Risk aggregation using Monte Carlo simulation

Using a Monte Carlo simulation method, the probability distributions of all identified 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 Company'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.

Based on the information that is continually recorded as part of the risk management process both in the parent company and in the subsidiaries worldwide and evaluated by the central risk management team, the Managing Board currently assumes that, based on the information available at present, 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.

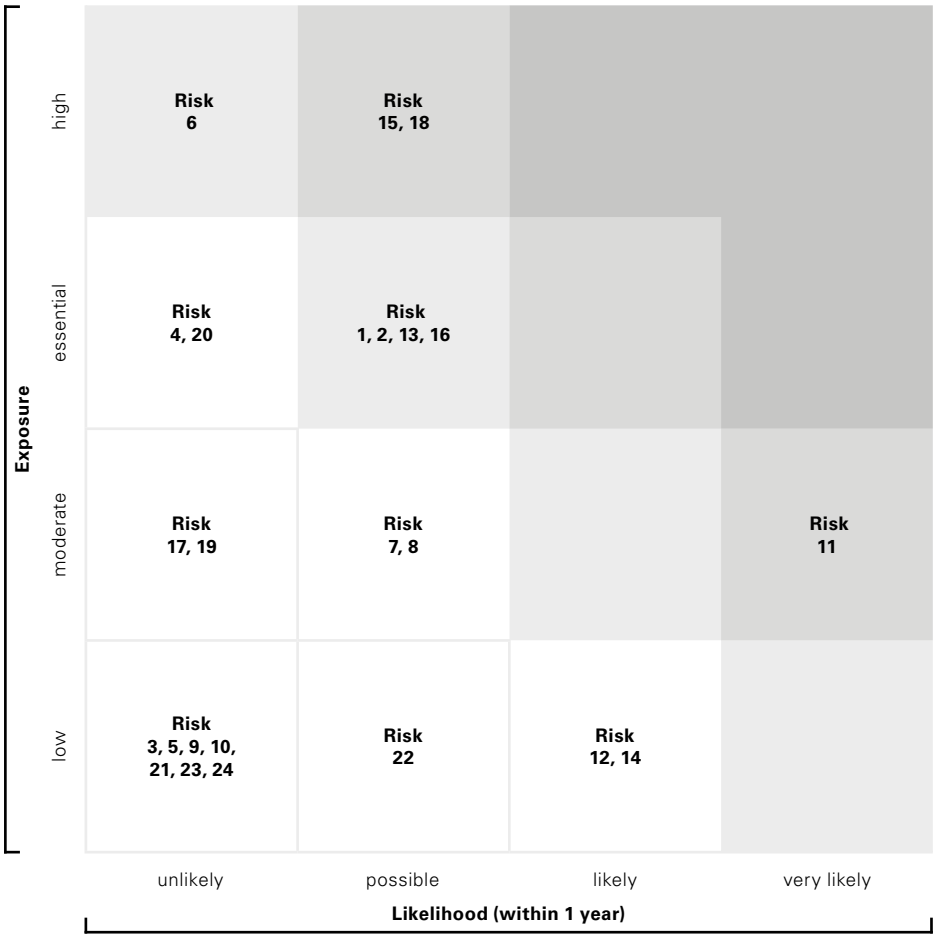
Risk map and risk prioritization

The risk map supports Management in prioritizing company-wide risks and provides a high degree of transparency regarding the risk situation of the Company. This risk map is now first presented in the Annual Report, meaning that the focus of the risk assessment during the course of publication is on the assessment criteria of the impact and the likelihood of occurrence, and less on the expected value as was the case in the past.

It emerges from the risk prioritization that ten risks have been assessed to have a low impact. These risks include the risk of product piracy and negative influences resulting from HUGO BOSS's competitive environment. Further low risks which fall under the category of financial risks are financing and liquidity risks, interest rate changes, pension provisions and counterparty risk. In terms of counterparty risk, with financial instruments the Group is exposed to a (bank) default risk in connection with the possible failure of a contracting party to meet its obligations. The maximum amount involved is therefore the positive fair value of the financial instrument in question.

Organizational risks with a low impact result from the operation of facilities by HUGO BOSS as well as from an occupational health and safety perspective. Legal risks are likewise assessed as low, since sufficient provisions have been created in the past fiscal year for current litigation and legal consultation costs. Risks in the context of governance and compliance are considered low due to the corporate compliance system which has been implemented (page 19). In order to ensure compliance with the requirements of business partners, suppliers are contractually bound to comply with social standards which govern issues such as occupational health and safety, the ban on child labor and fair wages. Monitoring takes the form of regular audits. If infringements of standards and legal requirements are detected, depending on the severity of the infringement, the review frequency is increased and a binding catalog of measures is agreed upon, with its implementation being monitored. In serious cases, the cooperation may be discontinued.

03|24 RISK OVERVIEW-RISKMAP (aggregated risks)



1) Overall Economy
2) Geopolitical developments
3) Product piracy
4) Environment and health
5) Competitive environment
6) Collection and industry
7) Investments
8) Brands and corporate image
9) Financing and liquidity
10) Changes in interest rates
11) Currencies
12) Counterparties
13) Taxes
14) Provisions for pensions
15) Suppliers and sourcing markets
16) Quality
17) Logistics
18) Sales and distribution
19) IT
20) Personnel
21) Facilities
22) Legal
23) Governance and compliance
24) Health and safety

The main risks of the HUGO BOSS Group in terms of prioritization in the fiscal year 2017, i.e. risks with a potential impact which is considered higher than "low", are described in greater 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 regard 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 customers' buying 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 sales performance reports from the Group's own retail business provide the HUGO BOSS Group with key early warning indicators that enable a forecast to be made 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 market shares 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 the fiscal year 2017, the Group generally expects the global economy to continue to grow. The premium and luxury goods segment is expected to grow by a percentage in the low single digits. Adverse macroeconomic developments can have an essential impact on planned business growth, however, regardless of the measures taken. Due to the ongoing uncertainties regarding the outcome of the Brexit vote, sustained weaker economic growth in China and worldwide political uncertainties, the Management estimates the likelihood of occurrence as possible. **➔ Subsequent events and outlook, outlook**

Political and social 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 potential risk of terrorist activities. The tragic events in France and Belgium made it all too clear that attacks such as these can have an adverse impact on business and demand beyond regional borders.

Geopolitical tensions, which have increased in recent years, continue to have an impact on our global client base. Fashion purchasing is often driven by emotions, meaning that uncertainty and fear can make these purchases less likely. We do not expect uncertainties regarding political and social developments to decrease in 2017. The main drivers of these uncertainties are elections in certain countries which either took place in 2016, mainly the Brexit referendum and the US presidential election, or which will take place in 2017, such as the presidential election in France, potential new elections in Italy and the federal election in Germany. The possible consequences of these elections are far-reaching, meaning that the composition of the euro currency union may change or turbulence may occur as a result of the Euro crises or the refugee question.

Given the increasing importance of risks arising as a result of political and social issues, HUGO BOSS has defined this as a long-term emerging risk. This risk environment results in strategic issues concerning demographic developments and their influence on HUGO BOSS's target groups, or with impacts on the supply chain. There is therefore a strong interconnectedness between the "Collection & Industry" and "Suppliers and Sourcing Market" risks. Changes to the characteristics of the target group, such as buying behavior or purchasing power, may have a medium or long-term impact on sales figures. In view of the definition as a "long-term emerging risk", a special focus is placed on risks belonging to this sub-category, meaning that current developments are monitored and analyzed to assess their potential impact on HUGO BOSS. During these analyses, risk experts work together in interdisciplinary teams, coordinated and advised by the central risk management team where necessary.

Global distribution in more than 120 countries provides a natural hedge against adverse developments in individual countries or regions. Unexpected changes in country-specific conditions in key markets may generally lead to essential financial impacts. As far as the Managing Board is concerned, the likelihood of this risk occurring after these measures have been taken is considered as low.

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 unforeseeably 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 handle emergencies and guarantees single leadership with clear decision-making paths. Nevertheless, significant impacts on target achievement cannot be entirely ruled out, although Management considers this situation to be unlikely. The risks resulting from climate change, such as water scarcity, are deemed to be unlikely for the fiscal year 2017, and the potential loss is assessed as low. Over a medium to long-term observation period, the risk posed by water scarcity increased in significance for HUGO BOSS, resulting in a moderate expected impact in the medium term. There is the risk that water scarcity will affect the agricultural sector in the long term. Cotton farming and, consequently, the reduced availability of special cotton fibers could lead to higher material costs.

STRATEGIC RISKS

Collection and industry risks

The new strategic orientation of the HUGO BOSS brand landscape will only have a marginal influence on the collections in the fiscal year 2017. The planned adjustments to the new brand positioning will take effect with the spring 2018 collection, meaning that risks associated with it may materialize from the fiscal year 2018 onward.

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 stores also makes a major contribution toward quickly channeling information on trends and buying behavior into collections. The likelihood of occurrence of collection and industry risks is therefore deemed unlikely by Management. Potential adverse effects are classified as high. → **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, such as clearly differentiated brand positioning supported by targeted marketing activities and a globally consistent brand presence with continuous monitoring of marketing and media. 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 managed by the Communications 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 moderate.

Investment risk

Retail activities involve investment risks that arise in connection with the establishment and maintenance of stores, long-term leases and personnel expenses. This leads to an increase in fixed costs. However, it also widens the gross profit margin. To keep the risk of bad investments and unprofitable Group retail stores as low as possible, decisions on the opening and closing of stores are made centrally in consultation with the responsible regional directors. Prior to opening new retail stores, all locations are thoroughly examined with regard to their potential, and comprehensive sales and development plans are prepared. Nevertheless, there is still a general risk that individual Group retail stores 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 at an early stage 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 to some extent 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 to the value of systematically depreciated

property, plant and equipment and amortized intangible assets at the level of the Group's own retail stores, other intangible assets with infinite useful lives (key money) and goodwill that have to be made due to the results of impairment tests are the largest risk position in this area. Against the backdrop of the measures described, the investment risk is assessed as possible, but with a moderate financial impact. **→ Group management, investment controlling**

FINANCIAL RISKS

The central tasks of Financial Management in 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 monitoring and control measures.

Interest rate risks

The interest rate risk for HUGO BOSS results primarily from changes to market interest rates for payments on cash balances and liabilities subject to variable interest, while market-driven fluctuations in interest rates impact future interest income and payments on cash balances and liabilities subject to variable interest. 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 Group are mostly subject to variable interest rates and have short-term fixed-interest periods. To minimize the effects of future interest volatility on long-term borrowing costs, partial use is made of derivative financial instruments in the form of interest rate swaps. Derivatives designated to an effective hedge within the meaning of IFRS impact equity in the event of interest rate changes.

In accordance with the requirements set down in 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 171 million (December 31, 2015: EUR 135 million), interest derivatives of EUR 10 million (December 31, 2015: EUR 10 million), and cash and cash equivalents of EUR 83 million (December 31, 2015: EUR 81 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 left at +100/–10 basis points in order to 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.

03|25 INTEREST RATE SENSITIVITIES AS OF DECEMBER 31 (in EUR million)

	2016		2015	
	+100 bp	**(10) bp**	+100 bp	(10) bp
Cash flow risks	(0.6)	0.1	(0.3)	0.0
Risks from interest rate derivatives recognized in income	0.5	0.0	0.6	(0.1)
Effects on net income	**(0.1)**	**0.1**	**0.3**	**(0.1)**
Risks from interest rate derivatives reflected on the consolidated statement of financial position	0.0	0.0	0.0	0.0
Effects on Group equity	**(0.1)**	**0.1**	**0.3**	**(0.1)**

An increase in market interest rates of 100 basis points as of December 31, 2016, would have led to an fall in net income of EUR -0.1 million (2015: EUR 0.3 million) and in equity of EUR -0.1 million (December 31, 2015: EUR 0.3 million). A decrease in market interest rates of 10 basis points would have led to a rise in net income of EUR 0.1 million (2015: EUR -0.1 million) and in Group equity of EUR 0.1 million (December 31, 2015: EUR -0.1 million). The effects from interest rate derivatives would have resulted from changes in fair value. The cash flow risks would have mainly resulted from higher/lower interest income and expenses from cash and cash equivalents.

Interest rates in Europe and North America remained at a low level in 2016. Given the current interest rate policy being pursued by the European Central Bank and the persisting macroeconomic uncertainties in Europe, the Group does not anticipate any significant interest rate increases in this region in the near future. Since the vast majority of Group financing is transacted in euros, HUGO BOSS considers the potential impact of interest rates to be low. Given the persistently expansionary monetary policy, particularly by the European Central Bank and the Federal Reserve, the Management currently considers interest rate changes likely with a low 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 operating business, exchange rate risks primarily arise due to the fact that products are bought and sold in different currencies in different amounts.

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

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. Future cash flows from the operating business in Turkey are included in an effective hedging relationship shown on the balance sheet. As a rule, the terms of the derivatives entered into are adjusted to the underlying hedged item when they are concluded. The derivative financial instruments, which are traded on 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 made 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, whereas 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 of 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. The currency risk is determined based on the balance sheet currency exposure as of December 31, 2016. The exposures include cash, receivables and liabilities, as well intercompany loans held in currencies other than the functional currency of each respective subsidiary. Effects from the translation of financial statements of foreign subsidiaries outside the eurozone are not taken into account.

The Group has implemented the "value-at-risk" (VaR) concept based on a parametric approach in the reporting year to quantify foreign currency risks. Since the fiscal year 2016, it has also been used as an internal indicator for activities conducted by the Group treasury department. The VaR replaces the sensitivity analysis, which was used in prior years. The parametric approach used is based on the following data and assumptions:

- Volatility from historical exchange rates within the reporting year
- Correlations over a five-year period
- Holding period of one month
- 95% confidence level
- Normal distribution

Although the VaR is an important concept in measuring market price risks, the model assumptions can limit its usefulness. The actual impact on profit can vary considerably from the VaR values calculated because of fundamental differences. This is especially the case in the event of exceptional occurrences.

Furthermore, it is assumed that the total financial currency exposure and its hedging ratio as of the reporting date are representative for the entire reporting period.

The diversified portfolio risk from exchange rate fluctuations calculated for the net profit of the HUGO BOSS Group is EUR 3.7 million (2015: EUR 6.3 million), aggregated across all currencies. The major contributors behind this are the Brazilian Real, Swiss Franc, Hong Kong Dollar and Polish Zloty in particular.

The sensitivity of equity is not reflected in the Group's net income due to the hedge accounting performed in Turkey. Had the euro appreciated against the Turkish Lira by one standard deviation, the Group's equity would have been EUR 2.1 million lower (2015: EUR 2.9 million). Had the euro depreciated by the same amount, the Group's equity would have been EUR 2.1 million higher (2015: EUR 2.9 million).

The Management expects further changes in the exchange rates of relevance to HUGO BOSS to be very likely in the fiscal year 2017. The risk of exchange rate fluctuations and its impact on the earnings of the HUGO BOSS Group based on the above value-at-risk analysis is classified as moderate.

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 Group's legal or tax structure. 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. The probability of the future usability of deferred tax claims recognized for unused tax loss carryforwards is assessed taking into account various factors, such as future taxable results in the planning periods, past results and measures already taken to increase profitability. HUGO BOSS applies a forecast period of a maximum of five years for this purpose. Actual figures may differ from the estimates. 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 possible with an essential financial impact.

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 potential 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 capacities 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 risks 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 sourcing markets and producers. Indeed, the largest single independent supplier only made up about 9% of the total sourcing volume (2015: 9%). 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 and the political uncertainties as previously mentioned, particularly thorough measures have

been implemented here. Based on a regular analysis of the potential damage, relocation options have been reviewed and the risks of financial loss covered to the greatest 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 high.

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 accordingly 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 low negative impact on the expected development of earnings.

The forecasting of sales volumes, planning of production capacities and allocation of raw materials and finished goods as part of the sourcing processes involves scheduling risks. Deviations from an appropriate allocation can lead to excess allocation resulting in high inventory levels on the one hand. On the other, it can also lead to insufficient allocation and the risk of failing to benefit from sales opportunities. In view of the large volumes involved, such misallocations have to be considered likely; depending on their magnitude, the associated financial consequences could have a high 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.

Seen as a whole, the potential aggregated loss arising from risks relating to the sourcing market are rated as high, while the likelihood of occurrence is categorized as possible on an aggregated basis. **➔ 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 essential despite 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 and continuous inspections are carried out to ensure that they are being observed. 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. The associated financial consequences are expected to be moderate.

Sales and distribution risks

The increasing significance of the Group's own retail business has led to an increased inventory risk, particularly in the event of unfavorable macroeconomic developments. The challenge of inventory management is to optimize inventories without compromising the ability to rapidly respond to customer orders. To mitigate inventory risks and optimize inventories in general, replenishment activities are coordinated by a competence center. Write-downs provide for inventory risks from slow-moving goods and the resulting reduction in marketability; these are reviewed at regular intervals. Sufficient write-downs were recognized as of the reporting date from the 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 distribution 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 sales markets that affect both the Group's own retail business and distribution through trading partners at the same time 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 high.

Attention is paid to ensuring a balanced customer structure to avoid a potential overdependence on individual customers in the wholesale channel. Indicators such as order backlog, sales and supply rates are monitored continually by the distribution 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 financial situation of customers. The HUGO BOSS Group is thus exposed to the negative impact of the insolvency of individual trading 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 successfully 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 risks 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 low. **➔ Notes to the consolidated financial statements, Note 13**

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 considers cyber attacks to be a "long-term emerging risk", and it is assumed that these attacks will continue to increase in frequency in future. Negative consequences from cyber attacks include damage to the company's reputation, business interruptions and liability claims as a result of data protection violations. In light of the increasing importance of the risk, a security information and event management (SIEM) system will be implemented in 2017 to identify and assess security incidents and to alert the administrator to them. An additional anti-threat protection system will be used in future too with the introduction of Windows 10. Employees will complete an online training course on Internet security and data protection every year, where they will learn about the correct procedures relating to these issues. Furthermore, HUGO BOSS also works with professional service providers to avert risks. The effectiveness of all ongoing and planned actions is regularly reviewed to ensure that the Company responds to the highly dynamic IT threats in the best possible way. Consequently, Management assumes that the probability of occurrence with respect to IT risks is unlikely and that any financial effect would be moderate.

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 targeted way. The Group's good reputation with respect to working conditions and employee satisfaction is regularly confirmed by the Group's consistent presence in the top positions of various employer rankings. A broad-based employee survey conducted at HUGO BOSS AG in the fiscal year 2014 gave important indications for the development of additional initiatives with which HUGO BOSS could be expanded as an employer brand and its attractiveness further enhanced. Further targeted measures were derived and implemented as a result of an additional employee survey carried out in the fiscal year 2016. Employee surveys will continue to be carried out every two years. The Group will thus be able to recruit, inspire and retain in the long term highly qualified employees even

in an increasingly competitive environment. Measures launched in the past, such as the promotion of employee health and support for striking a work-life balance, will remain a focal point in future too. 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 essential impact on the planned development of earnings. ➔ **Employees**

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 central finance department of HUGO BOSS AG and the proper basic and advanced training of employees together with the deployment of adequate software and the issue of uniformly applicable guidelines form the basis of 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 central finance department and all the operational areas, that can be accessed daily.

The extensive monthly management reporting package is one of the most important reporting tools in the central finance department. 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 department has the primary 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 central finance department. 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 and tax situation. The finance manager is also responsible for continuous monitoring of key management indicators, monthly reporting of KPIs to the central finance department 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 Chairman of the Managing Board of HUGO BOSS AG is authorized to issue directives 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 also 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 also responsible for preparing and revising uniform guidelines and instructions for accounting and tax-related processes. This mainly encompasses the preparation and revision of a 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". 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 to financial reporting are communicated in an accounting newsletter and posted in the Finance Forum on the Group's intranet. 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 employees from the entire Group receive training in current developments in international financial reporting and 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 defined with the Managing Board and the Audit Committee. Ad hoc audits can be performed at any time. All audit reports are submitted directly to the Chairman of the Managing Board 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 profit (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 discussions. On this basis, the Managing Board allocates the necessary resources to the operational units to enable them to benefit from their realization.

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

EXTERNAL OPPORTUNITIES

Favorable macroeconomic developments

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. The current low inflation and low interest rates coupled with rising real wages could contribute to a further improvement in consumer confidence in many markets and have a positive influence on the purchase of fashionable clothing and accessories.

Changes in the market environment

Over the last few years, however, the apparel industry has benefited less than most industries from the positive trend in consumer spending. A cyclical reversal of this development due to social trends that enhance the value of high-quality apparel even further, for example, could also support the sales of HUGO BOSS on the whole, regardless of how consumer confidence develops.

Regulatory changes in the market environment

Regulatory and legal changes can potentially have a positive impact on sales opportunities and the Company's profitability. More consistent prosecution and punishment of violations of trademark law may for example improve the Company's sales situation.

FINANCIAL OPPORTUNITIES

Favorable exchange rate and interest rate movements

Favorable exchange rate and interest rate movement 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 into relevant opportunities within the framework of financial management principles. The department works closely with the Group's global subsidiaries for this purpose.

STRATEGIC AND OPERATIONAL OPPORTUNITIES

Growth in the relevant customer segment

In many emerging markets, especially in China, economic researchers are expecting continued growth within the middle class. This would bring about an increase in the number of people demanding products in the upper premium segment as a result of their purchasing power. The Group is working systematically to capture the identified growth potential with market entry and market penetration strategies tailored to specific countries through collaboration with business partners and independent subsidiaries. In addition to this, it is systematically strengthening its distribution activities in markets with high growth potential and low brand penetration.

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 maintaining a fashionable appearance as a means of expressing their personality or standing out from the crowd. Clothing is also increasingly considered an important determinant of how an individual's competence in the workplace is perceived by others. Accordingly, market observers are expecting the share of men's fashion in the apparel market as a whole to increase in the future. In line with the commercial importance, HUGO BOSS will strengthen the menswear segment with regard to its marketing and fashion show activities and thus exploit growth opportunities.

Growing demand for casualwear and athleisure

Over the last few years, the casualwear and athleisure segments of the global apparel market have developed faster than classic tailoring. This development underlines the trend towards a relaxed clothing style and many consumers' need to dress in a sporty style without compromising on value or quality. Independent studies, such as the current market outlook of The Business of Fashion and McKinsey & Company, also expect above-average growth rates for the athleisure segment in the future. HUGO BOSS is therefore strengthening its offering in this area by integrating BOSS Orange and BOSS Green into the BOSS core brand. The Company will also give these formats more space again in its own stores to benefit from this trend. → **Group strategy**

Increasing digitization of shopping habits and lifestyles

The rapidly increasing use of digital offerings has significantly changed consumers' shopping habits and lifestyles over the last few years. By performing online searches, customers nowadays are far better informed before visiting a store than they were in the past. Indeed, more than half of HUGO BOSS customers questioned in a survey responded that they use digital channels to find out about offerings before making a purchase. HUGO BOSS sees these changes as an opportunity. With the expansion and continuous improvement of its online presence, the Group is addressing consumers' expectations with respect to a high-quality brand experience. The even closer integration of its online presence with the in-store retail business and the expansion of omnichannel offerings is designed to provide customers with an appealing and uncomplicated shopping experience. The company is also examing opportunities that might have arisen through the growing commercial use of previously purely for communication purposes used digital channels. → **Group strategy**

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 fitted 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. In addition, HUGO BOSS is creating a greater personalization offering in other product groups and price brackets. Opportunities are also seen in an individual approach to customers with systematic customer relationship management. Targeted phone calls, personalized mailings and individual newsletters will build stronger ties between HUGO BOSS and its customers and increase brand loyalty.

Improvements in operational processes

HUGO BOSS is addressing the growing importance of its own retail business by optimizing critical operational processes. Thanks to the introduction of IT-supported selling space, assortment and volume planning, the Group is in a position to align itself even more effectively with the needs of end consumers and to respond to changes in the market even more swiftly than in the past. The management of the flow of goods across more and more distribution channels offers opportunities to improve the availability of merchandise and to reduce discounts, for example. The Group is also working hard to increasingly digitize various processes along the value chain to generate time and cost advantages. → **Group strategy**

ORGANIZATIONAL OPPORTUNITIES

An active change to the corporate culture

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

Sustainable business model

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

SUBSEQUENT EVENTS AND OUTLOOK

HUGO BOSS is expecting its annual results to be largely stable in 2017 compared to the prior year. The change to the strategic direction adopted in the second half of 2016 and the implementation of the associated initiatives will shape the year 2017 for HUGO BOSS. The Group is assuming that it will return to sustainable and profitable growth in the medium term.

SUBSEQUENT EVENTS

No reportable events

Between the end of the fiscal year 2016 and the release for publication of this report on March 7, 2017, there were no macroeconomic, socio-political, industry-related or Company-specific changes that the Management expects to have a significant influence on the Group's earnings, net assets and financial positions.

OUTLOOK

Forward-looking statements are subject to opportunities and risks

The following report presents the forecasts by the Management of HUGO BOSS with respect to the future course of business and describes the expected development of significant macroeconomic and industry-specific conditions. It reflects the Management's current knowledge at the time the report was prepared, while also taking into account the fact that actual developments may differ considerably from these forecasts, either positively or negatively, due to the occurrence of risks and opportunities as described in the report on risks and opportunities. Other than the statutory publication requirements, the HUGO BOSS Group does not assume any obligation to update the statements contained in this report.

External factors influence development of business

Economic and industry-specific developments have a major influence on the development of the Company's operations and financial position. The Group must accordingly base its forecasts for expected business performance on assumptions regarding global economic and industry trends. These assumptions are outlined below. The Group continuously monitors these conditions over the course of the year so that it can respond to possible changes as quickly and comprehensively as possible.

Slight upturn in economic growth expected

The IMF expects the **global economy** to grow at a slightly accelerated pace of 3.4 % in 2017. This positive trend should be driven not only by the emerging markets, but also by industrialized nations. Positive stimulus from countries like Brazil, Nigeria and Russia, which were still in recession in 2016, should more than offset the expected slower growth in China. The industrialized nations should grow more strongly compared to the prior year, particularly due to higher rates of expansion in the U.S. and Canada. According to the IMF's estimates, however, growth in **Europe** is set to be down slightly on the prior-year level at 1.6 %. While the low price of oil and an expansive monetary and fiscal policy should indeed

support growth, the uncertainties associated with the Brexit vote will likely have a negative impact on development. In the **U.S.,** economic growth should accelerate to 2.3 %. Growth should be supported by the manufacturing sector and fiscal reforms in particular. The **Asian economy,** meanwhile, should record similar growth as in the prior year at a rate of 6.4 %, according to the IMF's estimates. While the growth rates in the smaller emerging markets within the region will see a moderate increase, growth in China should continue to slow despite ongoing measures introduced under monetary and fiscal policy. The Japanese economy should grow moderately with the support of an expansive monetary policy.

The premium and luxury goods industry should get back on track for growth

In a joint study, The Business of Fashion and consulting firm McKinsey & Company expect the **global apparel industry** to record low single-digit growth in 2017. The industry should therefore develop slightly better than it did in 2016. The reasons for this include anticipated stronger growth within the global economy and the positive impact of the changes that many companies made to their business models in 2016 to adapt to the long-term lower growth outlook for the industry. It is assumed that the upper premium segment of the apparel industry, which is the best benchmark for HUGO BOSS, will grow at a slightly above-average rate compared to the industry as a whole. The segment should benefit in this regard from greater price awareness among those customers who drove demand for products in the luxury segment in the past. However, the industry outlook is characterized by considerable differences within individual companies. It is also fraught with substantial risks in terms of geopolitical uncertainties, future political developments in major economies and terrorist threats.

Recovery in local demand supports the industry's prospects in Asia

In the **Europe** region, business looks set to recover with tourists. However, the price hikes that some companies were planning in selected European countries could hamper growth. Industry growth is likely to improve in the **Americas** region. The industry should have bottomed out last year, particularly in the U.S. The announced tax breaks and robustly performing equity markets should have a positive influence on growth in 2017. Protectionist tendencies may have a significantly adverse impact on the industry outlook, however. The Latin American markets should make a positive contribution to industry growth in the region with the support of the macroeconomic upturn. The **Asian premium and luxury goods market,** meanwhile, should benefit from recovery in local demand. In China, more stringent customs regulations and more complex visa processes for foreign travel are set to support local demand too. The adjustment of the store network, which was carried out by many companies in 2016, should bear the first fruits of success in 2017. In Hong Kong and Macau, the market situation should stabilize during the course of the year following double-digit declines in 2016, while Japan should also continue to expand if exchange rates remain stable.

Industry-related conditions remain challenging

HUGO BOSS expects that the economic and industry-specific conditions described above will have less of an impact on the Group's business development than in 2016. But particularly because industry development is expected to remain weaker compared to the long-term average, HUGO BOSS still considers itself to be exposed to major market-related challenges. This particularly applies to the U.S. market, which should indeed recover slightly from the drastic declines seen in 2016, but will remain under structural pressure in the department store segment above all else.

Group sales expected to be largely stable

Against this backdrop, the Group is expecting its sales in 2017 to be largely stable – in other words, to fluctuate between slight growth and slight decline – when adjusted for currency effects. This means that business growth should remain lower than the rates of expansion in the global economy and the development of the industry overall.

In 2017, sales growth is expected to vary by region.

Upswing in Asia provides positive stimulus for the Group's sales development

The Group expects that sales development in Europe will be more or less stable when adjusted for currency effects. The trends in Great Britain and southern Europe should be slightly better on a currency-adjusted basis when compared to the region as a whole. The depreciation of the pound sterling as a result of Great Britain's decision to leave the EU should support demand from tourists, but will weigh on revenue growth in the reporting currency. Germany and its neighboring markets are expected to develop somewhat weaker due to the challenging market environment. While the trend is anticipated to improve year-on-year for the Americas region, there are expectations that sales development will still be slightly negative. This primarily reflects the Group's ongoing measures to enhance its distribution activities in the wholesale business. In particular, the Company is restricting the distribution of the BOSS core brand in order to move away from the discount-intensive environment as best as possible. Sales in Asia will probably increase slightly in view of the ongoing upswing in the Chinese market. But declines in key individual markets such as Hong Kong – which are essentially burdened by the local downwards industry trend – are also expected in 2017. Sales in the license segment should develop solidly, however. This outlook is based in particular on the expectation that further growth will be recorded in the fragrance sector. → **Group strategy**

Sales in the Group's own retail business are expected to increase

Sales in the Group's own retail business will likely increase in 2017 when adjusted for currency effects. An increase in the mid-single digits is at the top end of the forecast range. The forecast is based on the assumption that like-for-like sales will develop between -3 % and +3 %. It is anticipated that the online business will return to growth during the course of the year. The planned renovation of around 100 points of sale will also further improve the customer experience and thus support sales productivity.

Size of the store network is likely to remain stable

The size of the Group's own store network will not significantly change in 2017. Planned closures particularly affect the approximately 15 sites that were already included in the action plan drawn up in 2016 to ensure the sustained profitability of the store network. Additional closures of stores with expiring leases will be offset by a similar number of openings. In many cases, this reflects site relocation within the same metropolitan region. The new openings will primarily focus on Europe and Asia. The number of freestanding stores will therefore decrease by a total of around 15 points of sale in 2017. In contrast, slight growth is expected for shop-in-shops and outlets. Takeovers of shop-in-shops at wholesale partners is reflected in this trend above all else. All in all, the retail space that HUGO BOSS manages by itself will therefore essentially remain unchanged. After adding the points of sale opened and taken over last year that will not be part of the like-for-like universe in 2017, the Group expects that expansion effects will make a low-single-digit percentage rate contribution to own retail sales growth overall.

Structural enhancement of distribution activities in the U.S. burdens sales development in the wholesale business

A low to mid single-digit percentage decline in sales is expected for the wholesale business. This is mainly due to the change in distribution strategy in the U.S. wholesale market, for which a low double-digit percentage rate decline is expected. The challenging industry environment will weigh on sales development in Europe too. However, the Group sees attractive opportunities around the world to exploit additional growth potential, both in the online business and by adapting the offering more comprehensively to the specific requirements of its physical retail partners.

Slight increase in gross profit margin expected

The growing share of own retail is expected to support the development of the Group's gross profit margin in 2017. The gross profit margin generated through this distribution channel is higher than in wholesale. The Group is also expecting to reduce inventory write downs compared to the prior-year level due to improved inventory management. Negative currency effects, mainly associated with the devaluation of the British pound will, however, offset these effects to some extent. HUGO BOSS is not expecting any significant changes in rebate management. It is therefore predicting that its gross profit margin will increase slightly year-on-year in 2017.

Strict cost management limits increases despite investments in future growth

The Group's operating expense development will be impacted particularly by the ongoing transformation to a systematically customer-focused business model. In this context, HUGO BOSS is investing in the integration of its physical retail activities with digital offerings and a high-quality customer experience along all consumer touch points. HUGO BOSS will also further expand its brand communication activities in order to strengthen customer demand. The Group is therefore expecting a slight increase in marketing expenses compared to sales. In other areas, the Group is continuing with its strict cost management. Lasting positive effects from renegotiating rental agreements in its own retail business and taking a strict approach to managing administration expenses will therefore limit the rise in operating expenses. The share of research and development expenses in Group sales should remain more or less stable.

Earnings outlook reflects forecast uncertainty in terms of sales development in own retail

EBITDA before special items is expected to develop within a range of -3 % to +3 % in 2017. This expectation particularly illustrates the uncertainty regarding like-for-like sales development in the own retail business. Depreciation and amortization expenses will remain more or less stable due to the lower investment level seen in the prior year. Essentially unchanged expenses compared to the prior year are expected for the financial result too. However, the consolidated net income and earnings per share should increase at low double-digit percentage rates. In the prior year, profit was burdened by expenses related to planned store closures and management changes.

Trade net working capital expected to remain stable relative to sales

Strict management of trade net working capital continues to be given high priority in order to support improvements in the operating cash flow. In 2017, the Group is striving to keep trade net working capital more or less stable relative to sales. A reduction in the days' inventories outstanding should support this development. With optimized merchandise planning as well as increased flexibility and speed in merchandise management, the Group is planning to improve this indicator, especially in its own retail business.

Investment activities focus on Group's own retail business

The Group's own retail business will remain the focus of its investment activities in 2017. The focus in this area is on the renovation of existing retail stores, selective new openings, and investments in the cross-channel integration and digitization of the Group's own retail activities. HUGO BOSS will therefore further expand and strengthen its IT infrastructure, particularly with a view to making improvements in the areas of e-commerce and digital brand communication, introducing additional omnichannel services and improving its customer relationship management. In 2017, capital expenditure will therefore come to between EUR 150 million and EUR 170 million, which reflects a similar level as in 2016.

Free cash flow to remain on prior year level

The Group again forecasts significantly positive free cash flow in 2017. A level that is more or less stable compared to the prior year is expected. Improvements to the consolidated net income are likely to be offset in this regard by cash outflows associated with store closures; provisions for these closures were already booked in 2016. The free cash flow should primarily be used to finance the dividend payment. Remaining liquidity will be deployed to reduce net debt. The Group expects financial leverage at the end of the year to remain more or less stable compared to the prior year. Particularly given its strong internal financing power and the refinancing of its syndicated loan facility in 2015, which is securing its long-term liquidity requirements on favorable terms, the Group is not planning any significant financing activities in 2017.

Dividend of EUR 2.60 per share proposed

HUGO BOSS pursues a profit-based dividend policy that allows the shareholders to participate appropriately in the Group's earnings development. Between 60 % and 80 % of net income is to be paid to the shareholders on a regular basis. The Managing Board and the Supervisory Board intend to propose to the Annual Shareholders' Meeting on May 23, 2017, a dividend of EUR 2.60 per share for the fiscal year 2016 (2015: EUR 3.62). The proposal is equivalent to a payout ratio of 93 % of the consolidated net income attributable to the equity holders of the parent company in 2016 (2015: 78 %). On the one hand, the proposed dividend takes the decline in earnings in 2016 into account. On the other hand, the proposal reflects the unchanged strong cash flow, the Company's robust financial position, and the expenses related to planned store closures in 2016 which will not reoccur in 2017. Assuming that the shareholders approve the proposal, the dividend will be paid out on May 29, 2017. Based on the number of shares outstanding at year-end, the amount distributed will come to EUR 179 million (2015: EUR 250 million).

Opportunities or risks occurring may influence the development of the financial results

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

03|26 TARGET ACHIEVEMENT AND OUTLOOK

	Targets 2016	**Result 2016**	Outlook 2017
Group sales[1]	Increase at a low single-digit percentage rate	(2)%	Largely stable development
Sales by region[1]			
Europe	Solid increase	+1%	Stable development
Americas	Slight decline	(12)%	Slight decline
Asia/Pacific	Slight decline	(2)%	Slight increase
Sales by distribution channel[1]			
Group's own retail business	Above-average development relative to overall Group	+2%	Increase of up to mid single-digit percentage rate
Wholesale	Decline at a mid to high single-digit percentage rate	(9)%	Decline at a low to mid single-digit percentage rate
Licenses	Moderate growth	+12%	Solid growth
EBITDA before special items	Decline at a low double-digit percentage rate	(17)%	Development within a range of -3% to +3%
Trade net working capital	Moderate decline relative to Group sales	Increase by 30 basis points to 19.8% of sales	More or less stable relative to sales
Capital expenditure	EUR 200 million to EUR 220 million	EUR 157 million	EUR 150 million to EUR 170 million
Group's own retail stores	Opening of around 20 new freestanding stores, upgrade and optimization of store portfolio	Opening of 34 new stores, closure of 22 locations	Size of store network to remain largely unchanged
Free cash flow	Generation of strongly positive free cash flow	Free cash flow increases to EUR 220 million	More or less stable compared to the prior year
Net financial liabilities/ financial leverage	Net debt around prior year levels	Net debt increases from EUR 82 million to EUR 113 million, financial leverage increases from 0.1 to 0.2	Financial leverage to remain more or less stable compared to the prior year

[1] On a currency-adjusted basis.

HUGO BOSS AG

The annual financial statements of HUGO BOSS AG are prepared in accordance with the rules set down in the HGB ["Handelsgesetzbuch": German Commercial Code].

HUGO BOSS AG is the parent company of the HUGO BOSS Group. HUGO BOSS AG's results of operations are influenced by its operating business as well as management of the central functions in particular. The main line items in this regard are the allocation of costs for services rendered to Group companies and the investment result resulting from the holding function of HUGO BOSS AG. The business development of HUGO BOSS AG is subject for the most part to the same risks and opportunities as those applicable to the HUGO BOSS Group. Due to its integration with the Group's companies and its importance within the Group, the expectations for HUGO BOSS AG are for the most part reflected in the Group's outlook. The previous versions therefore apply to both the HUGO BOSS Group and to HUGO BOSS AG.

EARNINGS DEVELOPMENT

03|27 INCOME STATEMENT HUGO BOSS AG (in EUR million)

	2016	**In % of sales**	2015	In % of sales	Change in %
Sales	**1,234.1**	**100.0**	**1,325.2**	**100.0**	**(7)**
Cost of sales	(766.9)	(62.1)	(805.2)	(60.8)	5
Gross profit	**467.2**	**37.9**	**520.0**	**39.2**	**(10)**
Distribution Costs	(298.4)	(24.2)	(300.4)	(22.7)	1
General administrative expenses	(99.0)	(8.0)	(98.1)	(7.4)	(1)
Other operating income	79.5	6.4	96.5	7.3	(18)
Other operating expenses	(114.2)	(9.3)	(67.7)	(5.1)	69
Operating profit	**35.1**	**2.8**	**150.3**	**11.3**	**(77)**
Income from investments in affiliated companies	227.2	18.4	229.8	17.3	(1)
Net interest income/expenses	(6.7)	(0.5)	(12.4)	(0.9)	46
Income from ordinary activities	**255.6**	**20.7**	**367.7**	**27.7**	**(30)**
Taxes on income and other taxes	(40.5)	(3.3)	(64.0)	(4.8)	37
Net income	**215.1**	**17.4**	**303.8**	**22.9**	**(29)**
Transfer to (-)/from (+) other revenue reserves	(37.1)	–3.0	(54.0)	(4.1)	>(100)
Accumulated income previous year	5.0	0.4	5.0	0.4	
Unappropriated income	**183.0**	**14.8**	**254.8**	**19.2**	**(28)**

[1] Due to the application of changes resulting from the BilRUG ["Bilanzrichtlinie-Umsetzungsgesetz": Accounting Directive Implementing Act], some amounts shown deviate from the values reported in the prior year (for details see the annual financial statement for HUGO BOSS AG for fiscal year 2016).

Decline in sales for HUGO BOSS AG

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

03|28 SALES BY REGION (in EUR million)

	2016	**In % of sales**	2015	In % of sales	Change in %
Europa	980.3	80	991.5	75	(1)
Americas	165.0	13	224.1	17	(26)
Asia/Pacific	88.8	7	109.6	8	(19)
TOTAL	**1,234.1**	**100**	**1,325.2**	**100**	**(7)**

Sales with third parties in the Europe region rose by 2% last year to EUR 496 million (2015: EUR 488 million).

03|29 SALES BY BRAND (in EUR million)

	2016	**In % of sales**	2015	In % of sales	Change in %
BOSS	939.2	76	1,090.7	82	(14)
HUGO	217.2	18	159.3	12	36
Other services	77.7	6	75.2	6	3
TOTAL	**1,234.1**	**100**	**1,325.2**	**100**	**(7)**

Gross profit margin decreases by 130 basis points

The decline in sales in the past fiscal year is attributable to declining sales with foreign subsidiaries. This led to a decline in **gross profit**. In addition to currency effects, the reduction in sales prices in Asia contributed to a decline in the **gross profit margin** in particular.

The **distribution costs** reduced slightly in the last fiscal year. A slight increase in expenses for the Group's own retail business and marketing initiatives in the field of digitization was offset by lower logistics expenses as well as lower freight out and license fees compared to the prior year.

The **general administration expenses** mainly comprise personnel expenses, rent for premises, lease expenses, amortization and depreciation as well as various IT costs. The slight year-on-year increase mainly stems from increased amortization charged on enterprise software due to investments in prior years.

The **other operating income** was down on the prior-year level due to lower year-on-year cost allocations and services rendered to affiliated companies. The increase in **other operating expenses** results from the reporting of claims for compensation from affiliated companies associated with the store closures agreed upon in the fiscal year 2016 in the context of the action plan and one-off expenses due to changes in the Managing Board. The line item also essentially includes research and development costs, bad debt allowances and exchange rate effects.

Investment result more or less stable

The **income from investments in affiliated companies** was just below the prior-year level. Income from investments in affiliated companies amounting to EUR 91 million (2015: EUR 90 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 with subsidiaries amounted to EUR 136 million (2015: EUR 140 million) and resulted from the transfer of profit from HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen. In the fiscal year 2016, this company received dividend income from HUGO BOSS Holding Netherlands B.V.

At 16%, the **effective tax rate** was slightly below the prior-year level (2015: 17%). The reduction largely results from the substantially lower operating profit versus the tax-privileged income from investments.

NET ASSETS

Property, plant and equipment and intangible assets increase due to acquisition of shares and investments

The **property, plant and equipment and intangible assets** increased 21% year-on-year to EUR 854 million (December 31, 2015: EUR 706 million). The main cause of this is an increase in financial assets as part of the Group internal acquisition of shares in HUGO BOSS Textile Industry Ltd., Izmir, Turkey. In addition, investments in the IT infrastructure associated with the continuous further development of the ERP system and for the takeover of material parts of the e-commerce value chain in Europe in the early summer of 2016 contributed to the increase, as well as further measures for the roll-out of omnichannel services. Further investments were made in association with the modernization of the retail network in Germany and Austria.

03|30 TRADE NET WORKING CAPITAL (in EUR million)

	2016	2015	Change in %
Inventories	195.4	175.0	12
Trade receivables	30.6	27.1	13
Trade payables	97.8	95.1	3
Trade net working capital	**128.2**	**107.0**	**20**

Increase in trade net working capital

The increase in **inventory** essentially results from higher stock levels for finished goods due primarily to the adjustments in delivery cycles compared to the previous year. HUGO BOSS AG is a supplier for the Group's global distribution companies. Causes for the increase in **trade receivables** included higher overdue payments in the wholesale business due to some individually adjusted payment targets. The **trade payables** also recorded a slightly higher volume-driven increase year-on-year. The **trade net working capital** was consequently up on the prior-year level at the year-end.

The **receivables from affiliated companies** saw an increase to EUR 150 million (December 31, 2015: EUR 123 million). This development is essentially attributable to the larger volume of receivables due from affiliated companies.

The **cash and cash equivalents**, as the sum of cash on hand and bank balances, decreased to EUR 2 million compared to December 31, 2015 (December 31, 2015: EUR 3 million). A greater inflow of funds from financing activities related to higher liabilities to affiliated companies was offset by a low inflow of cash from operating activities and a greater outflow of funds from investing activities mainly due to the development of net income for the year. At EUR 250 million, the dividend payment was unchanged over the prior year.

The **liabilities due to affiliated companies** came to EUR 459 million at the year-end (December 31, 2015: EUR 257 million). The increase is essentially attributable to increased refinancing through HUGO BOSS International B.V., Amsterdam, the Netherlands.

The **provisions** increased 29% to EUR 127 million as of the reporting date (December 31, 2015: EUR 99 million). Provisions for claims for compensation to affiliated companies associated with the store closures adopted in the context of the action plan in particular therefore led to an increase in the line item.

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

HUGO BOSS recorded a declining sales and earnings trend in 2016. This reflects the challenging macroeconomic and industry-specific conditions, as well as company-specific challenges. This was mainly related to marketing activities in America, which in the past were overly reliant on intensive discount sales formats.

Group sales remained below the forecasted slight increase outlined in the Annual Report 2015. The Group also failed to achieve the macroeconomic growth rates. The decline was, however, lower on average than the premium and luxury apparel industry as a whole. Continued growth in Europe and an improvement in sales trends in China had a significant influence on this. In contrast, in the U.S. sales declined far more sharply than originally expected. Comprehensive measures to enhance distribution activities in the wholesale business, for which the Company deliberately accepted short-term sales losses, played a significant role in this regard.

Due to the decline on a comparative basis in the Group's own retail business and losses in the wholesale business, the EBITDA before special items was 17% down on the prior year. The cost increase was limited by savings measures, without which the decline would have been greater. Results were therefore in line with the forecast. **→ Group earnings development**

By strictly focusing on value-enhancing projects, the volume of investment was reduced, enabling free cash flow to rise. With its low level of financial liabilities, the Group is therefore still in an exceedingly solid economic situation. **→ Financial position**

The initiated further development of the Group strategy will support the Group's return to sustainable and profitable growth in the medium term. On the path towards this the Managing Board expects that the Group's results in 2017 will continue to remain stable. **→ Subsequent events and outlook**

Metzingen, March 7, 2017

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Ingo Wilts

CHAPTER
4

Consolidated Financial Statements

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CONSOLIDATED INCOME STATEMENT

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016

CONSOLIDATED INCOME STATEMENT (in EUR thousand)

	Notes	2016	2015
Sales	(1)	**2,692,846**	**2,808,746**
Cost of sales	(1)	(915,384)	(955,930)
Gross profit		**1,777,462**	**1,852,816**
In % of sales		66.0	66.0
Selling and distribution expenses	(2)	(1,175,454)	(1,136,551)
Administration expenses	(3)	(271,804)	(264,307)
Other operating income and expenses	(4)	(66,701)	(4,246)
Operating result (EBIT)		**263,503**	**447,712**
Net interest income/expenses		**(2,162)**	**(5,901)**
Other interest and similar income		1,567	1,190
Interest and similar expenses		(3,729)	(7,091)
Other financial items		**(5,705)**	**(21,837)**
Financial result	(5)	**(7,867)**	**(27,738)**
Earnings before taxes		**255,636**	**419,974**
Income taxes	(6)	(61,991)	(100,556)
Net income		**193,645**	**319,418**
Attributable to:			
Equity holders of the parent company		193,513	319,355
Non-controlling interests		132	63
Earnings per share (EUR)[1]	(7)	**2.80**	**4.63**
Dividend per share (EUR)	(16)	**2.60[2]**	**3.62**

[1] Basic and diluted earnings per share.
[2] 2016: Proposed dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in EUR thousand)

	2016	2015
Net income	**193,645**	**319,418**
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	(2,817)	2,404
Items to be reclassified subsequently to profit or loss		
Currency differences	(7,486)	39,081
Gains/losses from cash flow hedges	(2,252)	842
Other comprehensive income, net of tax	**(12,555)**	**42,327**
Total comprehensive income	**181,090**	**361,745**
Attributable to:		
Equity holders of the parent company	180,879	361,682
Non-controlling interests	211	63
Total comprehensive income	**181,090**	**361,745**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

OF THE HUGO BOSS GROUP AS OF DECEMBER 31, 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in EUR thousand)

Assets	Notes	**2016**	2015
Intangible assets	(9)	185,449	182,602
Property, plant and equipment	(9)	416,278	439,788
Deferred tax assets	(6)	124,685	115,166
Non-current financial assets	(11), (21)	21,027	22,448
Non-current tax receivables	(6)	55	689
Other non-current assets	(11)	4,233	3,910
Non-current assets		**751,727**	**764,603**
Inventories	(12)	567,971	559,509
Trade receivables	(13)	228,176	239,614
Current tax receivables	(6)	42,617	21,124
Current financial assets	(11), (21)	28,339	29,017
Other current assets	(11)	96,302	104,582
Cash and cash equivalents	(14)	83,490	81,409
Assets held for sale		0	487
Current assets		**1,046,895**	**1,035,742**
TOTAL		**1,798,622**	**1,800,345**

Equity and liabilities			
Subscribed capital	(15)	70,400	70,400
Own shares	(15)	(42,363)	(42,363)
Capital reserve		399	399
Retained earnings		813,289	873,107
Accumulated other comprehensive income		44,778	54,595
Equity attributable to equity holders of the parent company		**886,503**	**956,138**
Non-controlling interests		1,048	(463)
Group equity		**887,551**	**955,675**
Non-current provisions	(17), (18)	78,554	72,082
Non-current financial liabilities	(19), (21)	134,111	134,975
Deferred tax liabilities	(6)	9,193	7,776
Other non-current liabilities	(20)	49,353	42,242
Non-current liabilities		**271,211**	**257,075**
Current provisions	(18)	148,614	102,773
Current financial liabilities	(19), (21)	77,077	41,475
Income tax payables	(6)	27,339	46,361
Trade payables		271,731	271,506
Other current liabilities	(20)	115,099	125,480
Current liabilities		**639,860**	**587,595**
TOTAL		**1,798,622**	**1,800,345**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in EUR thousand)

	Subsribed capital	Own shares	Capital reserve	
Notes	(15)	(15)		
January 1, 2015	**70,400**	**(42,363)**	**399**	
Net income				
Other income				
Comprehensive income				
Dividend payment				
Acquisition of non-controlling interests				
Changes in basis of consolidation				
December 31, 2015	**70,400**	**(42,363)**	**399**	
January 1, 2016	**70,400**	**(42,363)**	**399**	
Net income				
Other income				
Comprehensive income				
Dividend payment				
Changes in basis of consolidation				
December 31, 2016	**70,400**	**(42,363)**	**399**	

	Retained earnings		Accumulated other comprehensive income		Group equity		
	Legal reserve	Other reserves	Currency translation	Gains/losses from cash flow hedges	Total before non-controlling interests	Non-controlling interests	Group equity
	6,641	**794,689**	**15,320**	**(648)**	**844,438**	**(520)**	**843,918**
		319,355			319,355	63	319,418
		2,404	39,081	842	42,327		42,327
		321,759	**39,081**	**842**	**361,682**	**63**	**361,745**
		(249,839)			(249,839)		(249,839)
		(114)			(114)	(6)	(120)
		(29)			(29)		(29)
	6,641	**866,466**	**54,401**	**194**	**956,138**	**(463)**	**955,675**
	6,641	**866,466**	**54,401**	**194**	**956,138**	**(463)**	**955,675**
		193,513			193,513	132	193,645
		(2,817)	(7,565)	(2,252)	(12,634)	79	(12,555)
		190,696	**(7,565)**	**(2,252)**	**180,879**	**211**	**181,090**
		(249,839)			(249,839)		(249,839)
		(675)			(675)	1,300	625
	6,641	**806,648**	**46,836**	**(2,058)**	**886,503**	**1,048**	**887,551**

CONSOLIDATED STATEMENT OF CASH FLOWS

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016

CONSOLIDATED STATEMENT OF CASH FLOWS (in EUR thousand)

	Notes	**2016**	2015
	(24)		
Net income		193,645	319,418
Depreciation/amortization	(8)	169,179	142,099
Unrealized net foreign exchange gain/loss		(6,576)	7,915
Other non-cash transactions		4,980	(2,229)
Income tax expense/refund	(6)	61,991	100,556
Interest income and expenses	(5)	2,162	5,901
Change in inventories		(5,320)	(22,852)
Change in receivables and other assets		13,716	595
Change in trade payables and other liabilities		(1,097)	38,963
Result from disposal of non-current assets		(2,542)	(2,000)
Change in provisions for pensions	(18)	5,321	(7,110)
Change in other provisions		43,332	(9,261)
Income taxes paid		(105,708)	(145,525)
Cash flow from operations		**373,083**	**426,470**
Interest paid	(5)	(2,380)	(4,076)
Interest received	(5)	1,559	1,190
Cash flow from operating activities		**372,262**	**423,584**
Investments in property, plant and equipment	(9)	(121,477)	(154,256)
Investments in intangible assets	(9)	(31,025)	(39,857)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired	(24)	(2,825)	(22,951)
Cash receipts from sales of property, plant and equipment and intangible assets		3,296	1,106
Cash flow from investing activities		**(152,031)**	**(215,958)**
Dividends paid to equity holders of the parent company	(16)	(249,839)	(249,839)
Dividends paid to non-controlling interests		0	0
Change in current financial liabilities		32,844	24,278
Cash receipts from non-current financial liabilities		3,842	76,280
Repayment of non-current financial liabilities		(5,479)	(105,973)
Cash outflows for the purchase of additional interests in subsidiaries without change of control		0	(114)
Cash flow from financing activities		**(218,632)**	**(255,368)**
Exchange-rate related changes in cash and cash equivalents		482	520
Change in cash and cash equivalents		**2,081**	**(47,222)**
Cash and cash equivalents at the beginning of the period		81,409	128,631
Cash and cash equivalents at the end of the period	(14)	**83,490**	**81,409**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2016

GENERAL INFORMATION

HUGO BOSS AG is a publicly listed stock corporation with registered offices in Dieselstrasse 12, 72555 Metzingen, Germany. The Company is filed in the commercial register of Stuttgart local court under HRB 360610.

The purpose of HUGO BOSS AG and its subsidiaries (together the "HUGO BOSS Group") is the development, marketing and distribution of high-end men's and women's fashion and accessories in the premium and luxury segment.

The consolidated financial statements of HUGO BOSS AG as of December 31, 2016, were prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code].

The consolidated financial statements and combined management report of HUGO BOSS AG, Metzingen, were authorized for issue to the Supervisory Board by the Managing Board by resolution dated March 7, 2017.

Due to rounding differences and the presentation in EUR thousand, it is possible that individual figures in the consolidated financial statements do not exactly add up to the reported totals.

FINANCIAL REPORTING

Adoption of the standards and interpretations revised in 2016 does not have any material effects on the presentation of the Group's results of operations, net assets and financial position.

The following significant accounting standards were not yet compulsory for the fiscal year 2016. The implications are currently still being reviewed.

IFRS 9: FINANCIAL INSTRUMENTS

In July 2014, the IASB published the final version of the IFRS 9 "Financial instruments". The standard was adopted by the EU in November 2016 and includes revised guidance on the classification and measurement of financial assets, including guidance on the impairment of financial instruments, and thus replaces IAS 39. The recognition of losses is therefore preferred in the new "expected loss model", meaning that realized losses and expected losses must be recorded. The HUGO BOSS Group cannot conclusively assess the effects of the first application of the standard on January 1, 2018, at present. However, it is expected that the application of the new standard will only have a minor effect on the consolidated financial statements.

IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

The IFRS 15 "Revenue from contracts with customers" published by the IASB in May 2014 was adopted by the EU in September 2016 and becomes effective for the first time for fiscal years beginning on or after January 1, 2018. The guidance and definitions contained in IFRS 15 will replace the content of both IAS 11 and IAS 18 and the related interpretations in future. The new standard does not make any distinction between different types of contracts and services, instead defining uniform criteria to determine when a performance obligation is to be

recognized at a point in time or over time. Changes to the overall amount of revenue recognized for a customer contract may result in connection with the recognition of subsidies for store furnishings for wholesale customers, but these are currently only expected to be very minor. In addition to this, the HUGO BOSS Group expects changes in the balance sheet, such as separate postings for assets and liabilities under contract as well as additional quantitative and qualitative notes to the financial statements. However, there is not expected to be any material impact on the consolidated financial statements.

IFRS 16: LEASES

IFRS 16 "Leases" provides guidance on recognition, measurement, presentation and disclosure requirements and replaces IAS 17 and the related interpretations. The guidance for recognition by the lessor still makes a distinction between finance leases and operating leases and therefore does not differ materially from the accounting guidance provided in IAS 17. For the lessee, however, no distinction will be made between finance and operating leases in future. Most of the contracts which were previously categorized as operating leases must be recorded in the balance sheet from January 1, 2019. In accordance with IFRS 16, the lessee discloses a leasing liability of the value of the future leasing payments in the balance sheet as well as a corresponding right of use. Given the substantial number of operating leases, HUGO BOSS expects the first-time application of IFRS 16 to have a material effect on the consolidated financial statements, insofar as the standard is adopted by the EU in this form.

CONSOLIDATION PRINCIPLES

The HUGO BOSS Group's basis of consolidation comprises HUGO BOSS AG and all subsidiaries, including structured entities, over which HUGO BOSS AG can exercise direct or indirect control. HUGO BOSS AG is deemed to exercise control if as the parent company it has power over the subsidiary on account of voting or other rights, is exposed to variable returns from its involvement in the subsidiary and is able to use its power over the subsidiary to affect the amount of these returns. The subsidiary is deconsolidated as soon as the parent company relinquishes control over it.

Subsidiaries with an immaterial influence on the net assets, financial position and results of operations of the Group are not included in the consolidated financial statements. Influence is deemed immaterial if the aggregate sales, earnings and total assets make up less than 1% of the corresponding figures for the Group. This is reassessed at each reporting date. Non-consolidated subsidiaries are measured at fair value or, if this cannot be determined reliably, at cost, and reported under other non-current financial assets.

Structured entities which are controlled by the parent company are also consolidated. These are entities which have been structured in such a way that they are controlled by the parent company regardless of who holds the voting or comparable rights. This is the case, for example, if the exercise of voting rights is confined to administrative tasks and the material activities are governed by contracts.

Joint ventures are consolidated using the equity method. Joint control is the contractually agreed sharing of control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The sale of shares in subsidiaries as a result of which the Group's share in such subsidiary increases or decreases without any loss of control is recognized within the equity of the corresponding equity providers.

BASIS OF CONSOLIDATION

The HUGO BOSS Group's consolidated financial statements include HUGO BOSS AG based in Metzingen, Germany, and the entities that it controls in the reporting period from January 1 to December 31, 2016. The main Group companies included in the consolidated financial statements are as follows:

HUGO BOSS (Schweiz) AG	Zug, Switzerland
HUGO BOSS Australia Pty. Ltd.	Preston, Australia
HUGO BOSS Benelux B.V. y CIA S.C.	Madrid, Spain
HUGO BOSS Benelux Retail B.V.	Amsterdam, Netherlands
HUGO BOSS Canada, Inc.	Toronto, Canada
HUGO BOSS China Retail Co. Ltd.	Shanghai, China
HUGO BOSS Fashions, Inc.	Wilmington, DE, U.S.A.
HUGO BOSS France SAS	Paris, France
HUGO BOSS International B.V.	Amsterdam, Netherlands
HUGO BOSS International Markets AG	Zug, Switzerland
HUGO BOSS Italia S.p.A.	Milan, Italy
HUGO BOSS Retail, Inc.	New York, NY, U.S.A.
HUGO BOSS Textile Industry Ltd.	Izmir, Turkey
HUGO BOSS Ticino S.A.	Coldrerio, Switzerland
HUGO BOSS Trade Mark Management GmbH & Co. KG	Metzingen, Germany[1]
HUGO BOSS UK Limited	London, Great Britain

[1] Subsidiaries that exercise the exemption of Secs. 264 (3) and 264b HGB ["Handelsgesetzbuch": German Commercial Code].

In the reporting period from January 1 to December 31, 2016, the number of consolidated companies compared to the consolidated financial statements as of December 31, 2015, rose from 57 to 60.

The companies over which HUGO BOSS and a further party have joint control are Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG in Pullach, Germany, with a 100% share in capital and 20% of voting rights, and GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG in Grünwald, Germany, with a 100% share in capital and 15% of voting rights.

HUGO BOSS has discretionary power over the consolidation of structured entities insofar as leasing entities are then included in the consolidated financial statements, provided that HUGO BOSS has decision-making power over the entity's key activities and that it is thus able to affect the amount of the variable returns. In view of the rental and lease agreements which were already determined when two of these entities were established, HUGO BOSS assumes in its assessment that the decision-making rights with respect to the mere use of the leased assets during the term of the lease and with respect to the exercise of the call and renewal options provided for in the lease, which were calculated on the basis of the respective expected market value and are therefore unfavorable for HUGO BOSS as of December 31, 2016, do not constitute any decision-making powers with respect to the relevant activities of the entities in question.

BUSINESS COMBINATIONS

When a company obtains control over another company, this constitutes a business combination within the meaning of IFRS 3. All business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed (including contingent liabilities) in a business combination are measured at their acquisition-date fair values. Non-controlling interests are measured at their proportionate share in the fair value of the identifiable assets and liabilities. Acquisition-related costs incurred are expensed.

GOODWILL

The goodwill resulting from a business combination is the excess between the consideration transferred and the fair value of the non-controlling interest in the assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the acquiree, the difference is reassessed and then recognized in profit or loss.

After initial recognition, goodwill is carried at cost in the functional currency of the foreign acquiree less any accumulated impairment losses. Any goodwill recognized is tested for impairment annually and whenever there is an indication that the assets might be impaired.

INTERCOMPANY TRANSACTIONS

The effects of intercompany transactions are eliminated. Receivables and liabilities between the consolidated companies are offset against each other; intercompany gains and losses pertaining to intangible assets, property, plant and equipment and inventories are eliminated; intercompany income is offset against the corresponding intercompany expenses. Deferred taxes are recognized on temporary differences arising on consolidation in accordance with IAS 12.

DETERMINATION OF THE FUNCTIONAL CURRENCY

The Group's reporting currency is the functional currency of the parent company, HUGO BOSS AG. As a rule, the functional currency of the subsidiaries included in the consolidated financial statements is the corresponding local currency. For units that conduct a significant portion of their sales and procurement activities and that finance operations in a currency other than the corresponding local currency, the functional currency is the currency of the

primary business environment. Accordingly, the euro is the functional currency of HUGO BOSS Textile Industry Ltd., Turkey, and HUGO BOSS International Markets AG, Switzerland, as these companies conduct most of their business in euro.

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

In the separate financial statements, transactions in foreign currency are translated at the exchange rates valid at the dates of the transactions. Monetary items (cash and cash equivalents, receivables and liabilities) denominated in foreign currencies are translated into the functional currency at closing rates.

The resulting exchange rate gains and losses are recognized through profit and loss in other financial items.

TRANSLATION OF THE SEPARATE FINANCIAL STATEMENTS

The financial statements of the foreign Group companies whose functional currency is not the euro are translated into the Group reporting currency, the euro. Items are translated using the modified closing rate in accordance with IAS 21, under which assets, including goodwill, and liabilities are translated at closing rates, and income statement items are translated at the average exchange rates for the reporting period. The items of the income statement were translated into euros at the average monthly exchange rates and aggregated in the course of the year. Differences from currency translation of income statements at average rates and statements of financial position at closing rates are reported without effect on profit or loss in other comprehensive income. The currency difference resulting from the translation of equity at historical rates is likewise posted to other comprehensive income. Currency differences recognized in other comprehensive income are recycled to the income statement if the corresponding Group company is sold.

The most important exchange rates applied in the consolidated financial statements developed as follows in relation to the euro:

	Currency	Average rate		Closing rate	
Country	1 EUR =	**2016**	2015	**2016**	2015
Australia	AUD	1.4352	1.5025	1.4596	1.4897
China	CNY	7.2944	7.0179	7.3202	7.0608
Great Britain	GBP	0.8447	0.7253	0.8562	0.7340
Hong Kong	HKD	8.1759	8.4311	8.1751	8.4376
Japan	JPY	122.2803	132.3842	123.4000	131.0700
Switzerland	CHF	1.0749	1.0826	1.0739	1.0835
Turkey	TRY	3.6817	3.1732	3.7099	3.1838
U.S.A.	USD	1.0537	1.0878	1.0541	1.0887

ACCOUNTING POLICIES

The financial statements of HUGO BOSS AG and the German and foreign subsidiaries are prepared pursuant to uniform accounting policies in accordance with IFRS 10.

RECOGNITION OF INCOME AND EXPENSES

Income is recognized to the extent that it is probable that the economic benefits will flow to the Group and the income can be reliably measured. Income is measured at the fair value of the consideration received. Income is reported after deductions including discounts and other price deductions and net of VAT. The specific recognition criteria described below must also be met before income is recognized.

Sale of merchandise and goods

In the wholesale channel, income from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. This is the case as soon as delivery to the wholesale partner has been executed and all obligations affecting the acceptance of the goods by the wholesale partner have been settled.

In the Group's own retail business, opportunities and risks arising from the goods pass to the customer upon payment of the goods. Sales are recognized when transactions with customers are completed.

Sales via the online channel are recognized upon delivery of the goods to the customer. The date of delivery is deemed to be the date on which the opportunities and risks arising from the goods pass to the customer.

Claims under return agreements and rights of return are recognized in gross figures in the income statement and the balance sheet in connection with the recognition of sales. The income recognized in the income statement is reduced by an amount equaling the estimated sales attributable to the returned goods and the disposal of goods recorded through profit and loss when the goods are dispatched is adjusted for the estimated value of the returns. A miscellaneous non-financial asset is recognized equaling the amount of the historical costs for which a return is expected. Allowance is also made for additional costs and the loss arising from the resale of the returned goods.

License and other income

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

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

Interest income

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

FUNCTIONAL COSTS

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

RESEARCH AND DEVELOPMENT COSTS

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

INCOME TAXES

The tax rates and tax laws used to calculate the income tax are those that are enacted or substantively enacted on the reporting date in the countries where the Group operates and generates taxable income.

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are recognized for all temporary differences between the tax bases and the carrying amounts for financial reporting purposes of the separate entities and the carrying amounts in the consolidated financial statements in accordance with IFRS and for certain consolidation entries.

Deferred tax assets also include tax credits that result from the expected utilization of existing unused tax losses in subsequent years and the realization of which can be assumed with reasonable assurance. Deferred tax assets and deferred tax liabilities are presented on a net basis to the extent that the deferred tax assets and deferred tax liabilities relate to the same taxable entity. Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse.

Income taxes are recorded in the income statement with the exception of those relating to items recognized directly in equity.

INTANGIBLE ASSETS

Intangible assets are recognized if it is probable that a future economic benefit will flow to the company from the use of the asset and the cost of the asset can be reliably determined. Acquired intangible assets and internally generated intangible assets are measured at cost. Cost of conversion includes all costs directly allocable to the production process as well as an appropriate portion of production-related overheads. Intangible assets with a finite useful life are systematically amortized using the straight-line method over their useful life.

Intangible assets include software and licenses, reacquired rights and key money with a finite and infinite useful life (one-off payments made to the previous tenant when leases are entered into for the Group's own retail stores in prime locations). Intangible assets with an infinite useful life are tested for impairment once a year. If the carrying amount of the asset is no longer recoverable, an impairment loss is recognized.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment that are used in business operations for longer than one year are measured at cost less accumulated depreciation. Cost of conversion includes all costs directly allocable to the production process as well as an appropriate portion of production-related overheads. The underlying useful lives correspond to the expected useful lives within the Group. Property, plant and equipment are generally depreciated using the straight-line method.

Buildings and leasehold improvements on third-party land are depreciated over the term of the underlying lease agreements or the lower useful lives. The present value of the expected cost for the disposal or decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a corresponding provision are satisfied.

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

INVENTORIES

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

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

LEASES

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

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

FINANCIAL INSTRUMENTS

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

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

a / Financial assets at fair value through profit or loss (FAHfT)
b / Loans and receivables (LaR)
c / Financial liabilities at fair value through profit or loss (FLHfT)
d / Other financial liabilities measured at amortized cost using the effective interest method (FLAC)
e / Available-for-sale assets at fair value (AfS)

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

FINANCIAL ASSETS

Financial assets are recognized initially at fair value. This takes into account any directly attributable transaction costs relating to the acquisition.

Financial assets are measured at fair value through profit or loss if they were acquired for the purpose of selling them in the near future. This includes derivative financial instruments that are not designated to an effective hedging relationship in accordance with IAS 39. Gains and losses of financial assets are always recognized in profit and loss.

As a rule, the fair values recognized in the statement of financial position are the market prices of the corresponding financial assets. If these are not available, fair value is determined using generally accepted valuation models by reference to current market parameters. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, or discounted cash flow analysis and other valuation models.

Cash and cash equivalents recognized in the statement of financial position comprise cash in hand, balances with banks and other short-term deposits with an original term of less than three months; they are measured at amortized cost.

Trade receivables and other loans and receivables are subsequently measured at amortized cost (less any impairment losses), using the effective interest method where applicable. Gains and losses are recognized through profit or loss when the receivables are derecognized, impaired or settled.

Financial assets are measured at fair value through profit or loss if they were acquired for the purpose of selling them in the near future. This includes derivative financial instruments that are not designated to an effective hedging relationship in accordance with IAS 39. Gains and losses from financial assets measured at fair value through profit or loss are always posted to profit or loss.

Financial assets that are not measured at fair value through profit or loss are tested for impairment at every reporting date. If the carrying amount of a financial asset exceeds its fair value, it is reduced to the fair value. This decrease constitutes an impairment loss that is posted through profit or loss. An impairment loss recognized in profit or loss in a prior period is reversed if this is necessary on account of events occurring after it was originally recognized. Available-for-sale assets comprise non-derivative financial assets which are not allocated to any other measurement category and other financial assets which include non-consolidated subsidiaries.

A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset expire or are transferred. In the latter case, substantially all the significant risks and rewards of ownership of the financial assets must be transferred or control over the asset must be transferred.

FINANCIAL LIABILITIES

Financial liabilities are recognized initially at fair value. This takes into account any directly attributable transaction costs.

Derivatives that are not designated to an effective hedging relationship are measured at fair value through profit or loss. Negative fair values are reported under other financial liabilities. Gains and losses from subsequent measurement are recognized in profit or loss.

Trade payables and other financial liabilities are subsequently measured at amortized cost using the effective interest method. Any resulting gains and losses are posted to profit or loss when the liabilities are derecognized or extinguished.

A financial liability is derecognized when the obligation underlying the liability is discharged, canceled or expired.

HEDGING INSTRUMENTS

In the HUGO BOSS Group, derivative financial instruments are solely used to hedge interest rate and currency risks from the operating business.

When hedges are entered into, specific derivatives are allocated to hedged items. The requirements of IAS 39 for the designation of hedges are satisfied.

Pursuant to IAS 39, all derivative financial instruments are to be allocated to the "Financial assets measured at fair value through profit or loss" category and measured at fair value. Changes in the fair value of derivative financial instruments are generally recognized in profit or loss.

To the extent that the financial instruments used are effective hedges as part of a hedging relationship in accordance with the requirements of IAS 39 (cash flow hedges), fair value fluctuations during the term of the derivative do not affect profit or loss for the period. Instead, fair value fluctuations are recognized in equity in the corresponding reserve item. The cumulative amounts recognized in equity are recycled through profit or loss in the same period during which the hedged cash flows affect profit or loss.

PROVISIONS

Provisions are recognized if a past event has led to a current legal or constructive obligation to third parties which is expected to lead to a future outflow of resources that can be estimated reliably. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions for rebuild obligations in retail stores are recognized as liabilities at the present value of the best estimate of the amount required to settle the obligation. Corresponding assets are capitalized at the equivalent amount and depreciated over the term of the lease agreement. Provisions with a term of more than one year are discounted using a risk-free interest rate. Where the effect of the time value of money is material, the amount of the provision equals the present value of the expenditures expected to be required to settle the obligation.

PROVISIONS FOR PENSIONS

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

RESTRUCTURING PROVISIONS

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

SHARE-BASED COMPENSATION PROGRAMS

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

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

EXERCISE OF JUDGMENT AND ESTIMATES WHEN APPLYING ACCOUNTING POLICIES

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

BUSINESS COMBINATIONS/ACQUISITIONS OF OTHER BUSINESS UNITS

TAKEOVERS IN FISCAL YEAR 2016

In the fiscal year 2016, the HUGO BOSS Group took over a total of six stores and the related business activities in asset deals from former franchise partners in Malaysia and Hong Kong. Three stores in Malaysia were acquired with effect from January 1, 2016, and two outlets in Malaysia with effect from July 1, 2016, via HUGO BOSS Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia, which had been incorporated in the fiscal year 2015 and consolidated for the first time in 2016. One store in Hong Kong was acquired via HUGO BOSS Hong Kong Ltd., Hong Kong, China, with effect from May 1, 2016. The business acquisitions were made to support the expansion of the Group's own retail business in Asia/Pacific.

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

(in EUR thousand)

	2016
Purchase consideration transferred	
Agreed purchase price	2,825
Total purchase price	**2,825**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	345
Property, plant and equipment	1,027
Inventories	615
Total assets	**1,987**
Goodwill	**838**

Control over the assets is achieved through payment of the agreed purchase price. Goodwill is attributable to the Asia/Pacific segment and contains non-separable intangible assets and expected synergy effects. The goodwill is not expected to be tax-deductible. Transaction costs of an immaterial amount arose and were recognized immediately through profit or loss in the consolidated income statement.

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

If the stores had been purchased as of January 1, 2016, Group sales would have been EUR 878 thousand higher in the fiscal year 2016. The change in consolidated net income would have been immaterial. The additional Group sales generated by the takeovers came to EUR 4,859 thousand in the fiscal year 2016. The effects on consolidated net income were immaterial.

TAKEOVERS IN FISCAL YEAR 2015

In the fiscal year 2015, the HUGO BOSS Group took over a total of 46 stores and the related business activities in asset deals with former franchise partners in South Korea, China, New Zealand and Brazil. The stores in South Korea were acquired with effect from March 1, 2015, via HUGO BOSS Korea Ltd., South Korea, while the stores in China were acquired with effect from April 1, 2015, via HUGO BOSS China Retail Co. Ltd., Shanghai, China. One store in New Zealand was acquired via HUGO BOSS New Zealand Ltd., Auckland, New Zealand, with effect from September 1, 2015. One store in Brazil was acquired via HUGO BOSS do Brasil Ltda., São Paulo, Brazil, with effect from October 2, 2015. The business acquisitions were made to support the expansion of the Group's own retail business in Asia/Pacific and the Americas.

The following overview shows the allocation of the purchase price to the acquired assets performed in the fiscal year 2015 as well as the resulting goodwill:

(in EUR thousand)

	2015
Purchase consideration transferred	
Agreed purchase price	21,891
Contingent purchase price payment (not paid yet)	1,060
Total purchase price	**22,951**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	591
Property, plant and equipment	2,980
Inventories	6,066
Total assets	**9,637**
Goodwill	**13,314**

Control over the assets was achieved through payment of the agreed purchase price.

A contingent purchase price payment was agreed upon in the contract with the former franchise partner in China. In the fiscal year 2016, a payment of EUR 167 thousand was made in this respect. In the event of the successful negotiation of leases, the former franchise partner is expected to receive additional payments of a total of EUR 922 thousand in the next two years. The fair value of the contingent purchase price payment stood at EUR 895 thousand as of December 31, 2016.

The takeover of the stores operated in China by a former franchise partner was based on a preliminary purchase price allocation, as not all the information required to measure the property, plant and equipment in full was available in the fiscal year 2015. The purchase price allocation was finalized in the first quarter of the fiscal year 2016 and, hence, within twelve months of the acquisition date. The final measurement of the property, plant and equipment acquired led to a reclassification of EUR 639 thousand from goodwill to property, plant and equipment in the fiscal year 2016. They had only an insignificant effect on the comparable values of the prior year, hence there was no retroactive adjustment.

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

Goodwill is attributable to Asia/Pacific and the Americas and contains non-separable intangible assets and expected synergy effects. The goodwill is not expected to be tax-deductible. Transaction costs of an immaterial amount arose and were recognized immediately through profit or loss in the consolidated income statement.

If the business acquisitions had taken place as of January 1, 2015, Group sales would have been EUR 2,999 thousand higher in the fiscal year 2015. The change in consolidated net income would have been immaterial. The additional Group sales generated by the business acquisitions came to EUR 12,153 thousand in the fiscal year 2015.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1| SALES AND COST OF SALES

(in EUR thousand)

	2016	2015
SALES TOTAL	**2,692,846**	**2,808,746**
Sales of goods	2,623,360	2,746,658
Licenses	69,486	62,088
COST OF SALES TOTAL	**915,384**	**955,930**
Cost of purchase	792,511	835,761
Cost of conversion	122,873	120,169

Cost of purchase contains the cost of materials, which corresponds to the amount of inventories expensed in the fiscal year. The line item also mainly includes freight-in and customs costs.

2| SELLING AND DISTRIBUTION EXPENSES

(in EUR thousand)

	2016	2015
Expenses for Group's own retail business, sales and marketing organization	921,702	872,529
Marketing expenses	179,315	190,456
Logistic expenses	74,437	73,566
TOTAL	**1,175,454**	**1,136,551**

The expenses for the Group's own retail business and the sales and marketing organization mostly relate to personnel and lease expenses for wholesale distribution and retail services. They also include sales-based commission, freight-out, customs costs, credit card charges and impairment losses of receivables.

The marketing expenses comprise expenses of EUR 195,203 thousand (2015: EUR 207,997 thousand) and income from the allocation of marketing expenses of EUR 15,888 thousand (2015: EUR 17,541 thousand). Income from the allocation of marketing expenses mainly contains costs for the allocation of the cost of store fittings, marketing materials and advertising and sponsorship activities.

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

In total, selling and distribution expenses contain other taxes of EUR 3,589 thousand (2015: EUR 3,180 thousand).

3| ADMINISTRATION EXPENSES

(in EUR thousand)

	2016	2015
General administrative expenses	207,795	199,389
Research and development costs	64,009	64,918
TOTAL	**271,804**	**264,307**

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

Research and development costs in the HUGO BOSS Group primarily relate to the creation of collections. Total expenditure on research and development breaks down as follows: personnel expenses of EUR 46,137 thousand (2015: EUR 44,463 thousand), amortization of EUR 2,221 thousand (2015: EUR 2,280 thousand), and other operating expenses of EUR 15,651 thousand (2015: EUR 18,175 thousand).

Significant income was generated in the area of administration expenses by cross-charging of other costs and services amounting to EUR 9,557 thousand (2015: EUR 10,214 thousand) and from the reversal of provisions EUR 4,345 thousand (2015: EUR 5,148 thousand).

In total, administration expenses contain other taxes of EUR 5,461 thousand (2015: EUR 4,262 thousand).

4| OTHER OPERATING EXPENSES AND INCOME

In connection with the measures undertaken in the fiscal year 2016, to return to sustainable and profitable growth, HUGO BOSS has also conducted a detailed review of those stores that had diluted the Company's profitability in the past. The upshot of this was the decision made by HUGO BOSS as part of its catalog of measures to close around 20 freestanding stores by the end of 2017. Four of these closures had already been completed as of December 31, 2016. The expenses arising from the recognition of provisions and already settled payments stand at EUR 41,906 thousand and particularly relate to compensation payments to lessors, predominantly in Asia. In addition to this, impairments of EUR 6,299 thousand have been recognized on store fittings, predominantly in Asia and Europe. Expenses of EUR 48,204 thousand have therefore been incurred within the current fiscal year, which are reported within "Other operating expenses and income".

Expenses of EUR 10,610 thousand arose in connection with changes to the Managing Board in the reporting period. Additional other operating expenses arose as a result of organizational changes in the regions.

The net expense resulting from other operating expenses and income in the fiscal year 2016 was therefore a total of EUR 66,701 thousand. In the prior year, the net expenses amounted to EUR 4,246 thousand and were primarily related to the early dissolution of the agreement with trade agents and service providers as well as organizational changes in Europe and the Americas.

Other operating expenses and income include income of EUR 2,458 thousand (2015: income of EUR 8,504 thousand). Of this, EUR 1,057 thousand was the result of the sale of a showroom in France. The associated property, plant and equipment in the fiscal year 2015 was classified as non-current assets held for sale. Other income of EUR 1,401 thousand is largely attributable to the reversal of provisions from prior years. In the prior year, income related to the reversal of the provisions recognized in 2014 in connection with the sale of the production site in Cleveland, Ohio.

5| FINANCIAL RESULT

(in EUR thousand)

	2016	2015
Interest and similar income	1,567	1,190
Interest and similar expenses	(3,729)	(7,091)
Net interest income/expenses	**(2,162)**	**(5,901)**
Exchange rat gains/losses from receivable and liabilities	7,989	(8,252)
Gains/losses from hedging transactions	(12,977)	(8,581)
Other financial expenses/income	(717)	(5,004)
Other financial items	**(5,705)**	**(21,837)**
Financial result	**(7,867)**	**(27,738)**

Interest income includes income from bank deposits amounting to EUR 247 thousand (2015: EUR 351 thousand) and other interest income of EUR 1,320 thousand (2015: EUR 839 thousand).

Interest expenses include expenses from financial liabilities amounting to EUR 2,384 thousand (2015: EUR 4,076 thousand) as well as interest expenses of EUR 1,345 thousand (2015: EUR 3,015 thousand). In addition to loan interest, these items primarily include expenses for interest-rate swaps amounting to EUR 569 thousand (2015: EUR 1,028 thousand), net interest amount from pension provisions and interest expenses from the measurement of other non-current provisions at present value amounting to EUR 1,345 thousand (2015: EUR 1,450 thousand).

The exchange rate gains and losses from receivables and liabilities comprise exchange rate gains of EUR 25,795 thousand (2015: EUR 35,571 thousand) as well as exchange rate losses of EUR 17,806 thousand (2015: EUR 43,823 thousand). The result from hedging transactions contains the effects from the fair value measurement and derecognition of foreign exchange forwards and swaps.

6 | INCOME TAXES

(in EUR thousand)

	2016	2015
Current taxes	66,845	117,716
Deferred taxes	(4,854)	(17,160)
TOTAL	**61,991**	**100,556**

Income taxes report corporate income tax plus solidarity surcharge and trade tax of German Group companies together with the comparable income taxes of foreign Group companies.

At HUGO BOSS AG, the domestic income tax rate comes to 29.5% (2015: 29.5%). As in the prior year, the tax rates abroad range between 0% and 40%.

In fiscal year 2016, current income taxes include expenses relating to other periods amounting to EUR 1,218 thousand (2015: EUR 3,496 thousand), income relating to other periods of EUR 11,164 thousand (2015: EUR 484 thousand) and deductible withholding tax of EUR 2,945 thousand (2015: EUR 590 thousand).

The following table presents a reconciliation of the expected income tax expense that would be theoretically incurred if the current domestic income tax rate of 29.5% (2015: 29.5%) were applied at a Group level to the current income tax expense reported by the Group. The domestic income tax rate applied takes into account a corporate income tax rate (including solidarity surcharge) of 15.8% (2015: 15.8%) and a trade tax rate of 13.7% (2015: 13.7%).

(in EUR thousand)

	2016	2015
Pre-tax result	**255,636**	**419,974**
Anticipated income tax	75,540	124,102
Tax effect of permanent items	7,435	5,368
Tax rate-related deviation	(28,016)	(27,596)
Thereof effects of changes in tax rates	905	(7,318)
Thereof effects of addback deduction for local taxes	501	941
Thereof adjustment of tax amount to diverging local tax rate	(29,422)	(21,218)
Tax refund/back taxes	(7,001)	3,601
Deferred tax effects from prior years	(3,415)	(4,594)
Valuation allowance on deferred tax assets	17,242	(842)
Tax effects from distributable profit of subsidiaries	974	443
Other deviations	(768)	74
Income tax expenditure reported	**61,991**	**100,556**
Income tax burden	24%	24%

The income tax burden was reduced by tax-free income of EUR 1,624 thousand (2015: EUR 3,316 thousand). The opposite tax effects as a result of non-deductible business expenses come to EUR 5,811 thousand (2015: EUR 8,684 thousand).

Tax effects from the add-back/deduction for local taxes amounting to EUR 501 thousand (2015: income of EUR 941 thousand) stem for the most part from the rules on trade tax additions and deductions for the calculation of the trade tax assessment basis.

Other comprehensive income includes deferred tax income amounting to EUR 1,657 thousand (2015: expenses of EUR 1,896 thousand). This amount in the fiscal year 2016 is calculated from the recognition of actuarial gains and losses from pension provisions in equity (2015: expenses of EUR 1,509 thousand). In the fiscal year 2015, EUR 387 thousand also went toward the recognition directly in equity of fluctuations in the fair value of derivatives designated as hedging relationships.

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

(in EUR thousand)

	2016		2015	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Provisions and other liabilities	39,301	(24,293)	41,188	(45,565)
Unused tax losses	32,871	0	23,037	0
Inventory measurement	48,915	(3,159)	58,187	(3,115)
Recognition and measurement of non-current assets	49,864	(13,997)	53,367	(14,315)
Receivables measurement	6,788	(399)	8,637	(2,427)
Market valuation of financial instruments	886	(922)	1,034	(94)
Retained earnings of subsidiaries	0	(4,382)	0	(3,369)
Other differences in recognition and measurement	5,719	(1,055)	823	(971)
	184,344	**(48,207)**	**186,273**	**(69,856)**
Impairments[1]	(20,645)	0	(9,027)	0
Netting	(39,014)	39,014	(62,080)	62,080
TOTAL	**124,685**	**(9,193)**	**115,166**	**(7,776)**

[1] Including unrecognized unused tax losses.

Of the deferred tax assets, EUR 64,224 thousand (2015: EUR 59,656 thousand) are non-current, while EUR 37,826 thousand (2015: EUR 44,106 thousand) of the deferred tax liabilities are non-current. The full amount is reported as non-current in the statement of financial position.

Distributable profits at foreign subsidiaries are to be paid out in the coming years, partly to Germany. The tax expense attributable to the distribution amounting to EUR 1,496 thousand (2015: EUR 1,200 thousand) was recognized as a deferred tax liability. In addition, deferred taxes were recognized for distributable profits from subsidiaries paid out to other subsidiaries to the extent that withholding tax is payable on future dividends. Deferred tax liabilities of EUR 2,887 thousand (2015: EUR 2,169 thousand) were recognized for these withholding tax expenses.

Further deferred tax liabilities were not recognized on distributable profits at subsidiaries amounting to EUR 502,592 thousand (2015: EUR 374,351 thousand) as the present intention is to permanently reinvest these profits. If the profits were to be distributed in Germany, 5% would be subject to taxation in Germany or possibly trigger withholding tax in other countries. Distributions thus as a rule lead to an added tax expense. Estimation of unrecognized deferred tax liabilities on undistributed profits would require an unreasonable effort.

Deferred tax assets on losses carried forward and interest carryforwards were included insofar as the corporate planning yields a profit in subsequent years against which the losses carried forward can be used or insofar as deferred tax liabilities exist. Of these, as of the balance sheet date deferred tax assets were recognized in the amount of EUR 46,008 thousand (2015: EUR 15,963 thousand) within those companies, which made a loss during the reporting period or prior period.

Unused income tax losses mainly pertain to foreign Group companies and break down as follows:

(in EUR thousand)

	2016	2015
Expiry within		
1 year	383	997
2 years	2,411	5,113
3 years	9,738	7,875
4 years	12,748	3,630
5 years	19,643	15,262
After 5 years	22,500	23,058
unlimited carryforward	73,945	27,405
TOTAL	**141,368**	**83,340**

As in prior fiscal years, a corresponding deferred tax asset of EUR 13,705 thousand was recognized on unused tax losses as at December 31, 2016 (2015: EUR 14,010 thousand). In fiscal year 2016, no deferred taxes were recognized on unused tax losses of EUR 80,612 thousand (2015: EUR 27,907 thousand).

It was judged that deferred tax assets are to be recognized on unused tax losses to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses can be offset. The probability of future availability is assessed in the light of various factors such as future taxable earnings in the forecast periods and historical earnings. HUGO BOSS applies a forecast period of a maximum of five years for this purpose. Actual figures may differ from the estimates.

The income tax assets relate mainly to tax advance payments and reimbursement claims. These are based on reasonable estimates to the extent that reimbursement by the financial administration office is judged to be largely probable on the basis of relevant case law. This assessment also takes into account the estimates of local external experts.

7| EARNINGS PER SHARE

There were no shares outstanding that could have diluted earnings per share as of December 31, 2016, or December 31, 2015.

(in EUR thousand)

	2016	2015
Net income attributable to equity holders of the parent company	193,513	319,355
Average number of shares outstanding[1]	69,016,167	69,016,167
Earnings per share (EPS) in EUR[2]	2.80	4.63

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

8| ADDITIONAL DISCLOSURES TO THE CONSOLIDATED INCOME STATEMENT

PERSONNEL EXPENSES

(in EUR thousand)

	2016	2015
Cost of sales	93,170	93,290
Selling and distribution expenses	338,464	321,715
Administration expenses	154,221	152,031
Other operating expenses/income	18,714	(4,243)
TOTAL	**604,569**	**562,793**

The net expense resulting from other operating expenses and income in the fiscal year 2016 primarily arose in connection with changes to the Managing Board as well as organizational changes in the regions. In the prior year, income related to the reversal of the provisions recognized in 2014 in connection with the sale of the production site in Cleveland, Ohio.

(in EUR thousand)

	2016	2015
Wages and salaries	517,174	478,320
Social security	80,342	78,813
Expenses and income for retirement and other employee benefits	7,053	5,660
TOTAL	**604,569**	**562,793**

The average headcount for the year was as follows:

EMPLOYEES

	2016	2015
Industrial employees	5,048	5,043
Commercial and administrative employees	10,785	10,263
TOTAL	**15,833**	**15,306**

ORDINARY DEPRECIATION

(in EUR thousand)

	2016	2015
Cost of sales	6,339	6,020
Selling and distribution expenses	102,255	93,398
Administration expenses	30,226	24,955
TOTAL	**138,820**	**124,373**

COST OF MATERIALS

In the past fiscal year, the cost of materials came to EUR 791,558 thousand (2015: EUR 765,699 thousand).

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9| INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

(in EUR thousand)

2016	Gross Value January 1, 2016	Currency translation effects	Additions	Disposals	Transfers	Gross Value December 31, 2016
Software, licenses and other rights	**199,074**	(1,940)	28,904	(1,845)	75	**224,268**
Brand rights	**14,992**	0	0	0	0	**14,992**
Key Money	**45,130**	(738)	3,160	(532)	376	**47,396**
Internally developed Software	**5,603**	0	0	0	0	**5,603**
Goodwill	**53,928**	73	838	0	(639)	**54,200**
Intangible Assets	**318,727**	**(2,605)**	**32,902**	**(2,377)**	**(188)**	**346,459**
Lands and buildings	**259,862**	(29,127)	1,265	(3,209)	3,013	**231,804**
Technical equipment and machinery	**83,532**	32	3,664	(7,494)	1,191	**80,925**
Other equipment, operating and office equipment	**737,998**	24,250	113,777	(40,702)	7,975	**843,298**
Contruction in progress	**15,085**	(1)	5,161	(47)	(11,021)	**9,177**
Property, Plant and Equipment	**1,096,477**	**(4,846)**	**123,867**	**(51,452)**	**1,158**	**1,165,204**
TOTAL	**1,415,204**	**(7,451)**	**156,769**	**(53,829)**	**970**	**1,511,663**

2015	Gross Value January 1, 2015	Currency translation effects	Additions	Disposals	Transfers	Gross Value December 31, 2015
Software, licenses and other rights	**170,799**	2,631	30,885	(6,135)	894	**199,074**
Brand rights	**14,992**	0	0	0	0	**14,992**
Key Money	**34,088**	1,246	9,571	0	225	**45,130**
Internally developed Software	**5,603**	0	0	0	0	**5,603**
Goodwill	**40,032**	582	13,314	0	0	**53,928**
Intangible Assets	**265,514**	**4,459**	**53,770**	**(6,135)**	**1,119**	**318,727**
Lands and buildings	**265,506**	(15,039)	24,853	(15,152)	(306)	**259,862**
Technical equipment and machinery	**80,019**	556	5,585	(984)	(1,644)	**83,532**
Other equipment, operating and office equipment	**602,617**	45,733	122,259	(35,617)	3,006	**737,998**
Contruction in progress	**5,250**	(151)	13,882	(43)	(3,853)	**15,085**
Property, Plant and Equipment	**953,392**	**31,099**	**166,579**	**(51,796)**	**(2,797)**	**1,096,477**
TOTAL	**1,218,906**	**35,558**	**220,349**	**(57,931)**	**(1,678)**	**1,415,204**

	Accumulated amortization January 1, 2016	Currency translation effects	Depreciation	Impairment	Disposals	Transfers	**Accumulated amortization December 31, 2016**	**Net Value December 31, 2016**
	109,102	(1,376)	23,460	0	(1,825)	3	**129,364**	**94,904**
	0	0	0	0	0	0	**0**	**14,992**
	20,287	(317)	2,220	2,833	(532)	0	**24,491**	**22,905**
	5,603	0	0	0	0	0	**5,603**	**0**
	1,133	419	0	0	0	0	**1,552**	**52,648**
	136,125	**(1,274)**	**25,680**	**2,833**	**(2,357)**	**3**	**161,010**	**185,449**
	124,670	(16,895)	12,900	0	(2,917)	(48)	**117,710**	**114,094**
	63,920	47	4,835	0	(6,987)	0	**61,815**	**19,110**
	468,096	16,814	95,405	27,526	(38,829)	386	**569,398**	**273,900**
	3	0	0	0	0	0	**3**	**9,174**
	656,689	**(34)**	**113,140**	**27,526**	**(48,733)**	**338**	**748,926**	**416,278**
	792,814	**(1,308)**	**138,820**	**30,359**	**(51,090)**	**341**	**909,936**	**601,727**

	Accumulated amortization January 1, 2015	Currency translation effects	Depreciation	Impairment	Disposals	Transfers	**Accumulated amortization December 31, 2016**	**Net Value December 31, 2016**
	94,248	1,266	18,769	0	(6,073)	892	**109,102**	**89,972**
	0	0	0	0	0	0	**0**	**14,992**
	16,532	430	1,782	1,154	0	389	**20,287**	**24,843**
	5,603	0	0	0	0	0	**5,603**	**0**
	1,133	0	0	0	0	0	**1,133**	**52,795**
	117,516	**1,696**	**20,551**	**1,154**	**(6,073)**	**1,281**	**136,125**	**182,602**
	135,593	(11,821)	16,155	0	(15,174)	(83)	**124,670**	**135,192**
	61,296	536	4,635	0	(903)	(1,644)	**63,920**	**19,612**
	373,151	29,614	83,032	16,572	(33,946)	(327)	**468,096**	**269,902**
	3	0	0	0	0	0	**3**	**15,082**
	570,043	**18,329**	**103,822**	**16,572**	**(50,023)**	**(2,054)**	**656,689**	**439,788**
	687,559	**20,025**	**124,373**	**17,726**	**(56,096)**	**(773)**	**792,814**	**622,390**

SOFTWARE, LICENSES AND OTHER RIGHTS

The Columbus IT project launched in the fiscal year 2003 led to the acquisition of new software covering all areas of enterprise resource management. Over the full duration of the project, intangible assets with a historical cost of EUR 80,590 thousand (2015: EUR 77,199 thousand) were capitalized in connection with the ERP system, of which EUR 59,159 thousand (2015: EUR 52,272 thousand) had already been amortized as of the reporting date. The remaining amortization period reduced to 3.1 years (2015: 3.9 years). Apart from the aforementioned software, other software licenses totaling EUR 61,081 thousand (2015: EUR 50,029 thousand) are included, whose remaining amortization period is 4.3 years (2015: 5.6 years). The average useful life of software and licenses is in between 3 to 20 years.

In addition, the line item "Software, licenses and other rights" contains intangible assets from purchase price allocations. Among others, business licenses and repurchased franchise rights with a useful life of 1 to 10 years were included.

BRAND RIGHTS

The reported brand rights amounting to EUR 14,992 thousand (2015: EUR 14,992 thousand), which are primarily attributable to the brand rights acquired for the use of the brand names BOSS, HUGO and HUGO BOSS in the United States, are classified as assets with infinite useful lives. The infinite useful life stems from the estimate of an indefinite use of the registered brand name.

KEY MONEY

Key money totaling EUR 22,905 thousand (2015: EUR 24,852 thousand) was recognized as of the reporting date. Of that amount, EUR 5,832 thousand (2015: EUR 6,397 thousand) pertains to key money with an infinite useful life and EUR 17,073 thousand (2015: EUR 18,446 thousand) to key money with a finite useful life. As of December 31, 2016, key money with an infinite useful life only concerns the Group's own retail stores in France at EUR 5,382 thousand (2015: EUR 6,397 thousand). The key money with a finite useful life has a remaining amortization period of 9.0 years (2015: 9.1 years) and mainly refers to the Group's own retail stores in Great Britain, Switzerland and Spain. Key money is written down on a straight-line basis over the term of the lease agreement in question.

PROPERTY, PLANT AND EQUIPMENT

Land charges in connection with land and buildings amount to EUR 35,009 thousand (2015: EUR 39,118 thousand).

Impairment losses of EUR 27,526 thousand (2015: EUR 16,572 thousand) is attributable to property, plant and equipment. Most of the impairment losses were recognized on property, plant and equipment for individual areas of the Group's own retail stores after impairment testing.

In terms of property, plant and equipment, buildings are generally amortized over a useful life of 30 years, technical facilities and machines over a useful life of 5 to 19 years, and other facilities and operating and office equipment over 2 to 15 years.

PURCHASE OBLIGATIONS

In addition, there are purchase obligations for investments amounting to EUR 2,907 thousand (2015: EUR 7,759 thousand). Of this amount, EUR 2,261 thousand (2015: EUR 5,469 thousand) is attributable to property, plant and equipment and EUR 647 thousand to intangible assets (2015: EUR 2,290 thousand). The obligations as of December 31, 2016, are due for settlement within one year.

10| IMPAIRMENT TESTING IN THE HUGO BOSS GROUP

An impairment test must be carried out for all assets within the scope of application of IAS 36, insofar that there is any evidence of impairment ("triggering events") as of the reporting date. Regardless of the existence of any triggering events, the following non-current assets were tested for impairment in the course of annual impairment testing on the reporting date of December 31, 2016:

- Systematically depreciated property, plant and equipment and amortized intangible assets at the level of the Group's own retail stores
- Other intangible assets with infinite useful lives (key money)
- Brand rights with an infinite useful life
- Goodwill

With the 2016 consolidated financial statements, the HUGO BOSS Group has made a change to the valuation model used during the annual impairment test to assess the recoverability of non-current assets using a discounted cash flow model. In this regard, as of the current fiscal year also the gross profit margin of the preceding units as well as the joint assets at the level of the subsidiary or at the level of the DOS have been included. The Management believes that this change creates a more reliable illustration of the Group's net assets, financial position and results of operations. It had only an insignificant effect on the net assets, financial position and results of operation in the prior year, hence the prior year's value was not adjusted retrospectively.

SYSTEMATICALLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT AND AMORTIZED INTANGIBLE ASSETS AT THE LEVEL OF THE GROUP'S OWN RETAIL STORES

In the HUGO BOSS Group, the **Group's own retail stores (DOS)** have been identified as a CGU, i.e. the smallest group of assets that can independently generate cash flows.

The DOS assets amortized or depreciated on a systematic basis are tested for impairment if there are indications or changes to planning assumptions suggesting that the carrying amount of the assets is not recoverable. For this purpose, after preparing the annual budget plan, HUGO BOSS conducts a triggering event test at DOS level. If defined year-on-year sales and profitability indicators are not reached, the non-current assets of the DOS in question are tested for impairment.

The recoverable amount of the DOS is determined by calculating the value in use on the basis of discounted cash flow models. The planned cash flows for the DOS from the bottom-up one-year budget approved by the Management of HUGO BOSS AG are used for calculating the value in use. The forecast period is derived based on the expected useful lives for all DOS and is reassessed annually. After the bottom-up budget, the values for the remaining useful lives are determined based on sales and cost developments specific to each country and CGU. The growth rates used for this purpose are based on the nominal, expected retail growth in each respective market for the corresponding planning year. Single-digit growth rates were thus determined for all DOS. At the end of the residual useful life, it is assumed that the respective DOS is wound up and that the operating assets are sold. In the calculation of the value in use of the DOS, cash flows were discounted using a weighted average cost of capital of between 3.7% and 14.6% (2015: between 3.5% and 18.1%). This was based on a risk-free interest rate with an equivalent term of -0.4% (2015: 0.3%) and a market risk mark-up of 6%. Alternatively, the recoverable amount of the DOS is determined with the assistance of external reports which calculate the fair value less the costs to sell at level 3 of the fair value hierarchy in accordance with IFRS 13. Depending on the underlying legal framework and the available information, the fair value, particularly for key money with a finite

useful life, is determined by reference to previous and comparable transactions using a multiplication process or as the present value of the differences in rents between the current lease and current market rents; in this case, the valuation period is determined on the basis of the lease.

Scheduled DOS impairment testing in the past fiscal year resulted in impairment losses on non-current assets of EUR 24,060 thousand (2015: EUR 17,726 thousand), which were recognized through profit or loss under "Selling and distribution expenses". The impairment losses are primarily attributable to retail store locations in the Americas and Europe. In connection with the decision taken in mid-2016 to close around 20 freestanding retail stores worldwide which had diluted the Group's profitability in the past, impairments were recognized on store fittings in the amount of EUR 6,299 thousand (2015: EUR 0 thousand), which were recognized through profit or loss under "Other operating expenses and income".

Based on the calculation of the fair value by external assessors, for the DOS with allocated key money with an infinite useful life impairment losses of EUR 729 thousand were allocated in the fiscal year 2016 (2015: EUR 450 thousand).

GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

The assessment of impairment is based on detailed planning of results of operations, of the statement of financial position and of investments for the next three years for all units of the Group, which is prepared annually in the company-wide budget planning process and approved by the Supervisory Board, taking account of the current business situation. For periods beyond the budget's planning horizon, a long-term growth rate is set to project future cash flows in the detailed planning period of two additional years. The long-term growth rates used for this purpose are consistent with external sources of information. Investment and trade net working capital planning is based on budget planning data and is extrapolated on the basis of historical experience. The cost of capital for the HUGO BOSS Group determined using an after-tax WACC model that discounts all forecast cash flows in the local currency, while factors in both general market and country-specific risk mark-ups (sovereign risk mark-up) as well as a currency risk mark-up (inflation risk mark-up). The after-tax cost of capital rate used as of December 31, 2016, is based on a risk-free interest rate of 0.5% (2015: 1.5%) and a market risk mark-up of 6.0% (2015: 6.0%).

The following table presents the carrying amounts as well as the main assumptions underlying the calculation of the value in use or fair value less costs to sell the goodwill and intangible assets with infinite useful lives assigned to each group of CGUs. The **goodwill** created in previous fiscal years as a result of the takeover of the monobrand stores of former franchise partners is allocated to the relevant sales units (groups of CGUs). As of this fiscal year, production units are no longer considered as independent CGUs but as joint assets. The joint assets are taken into account in the impairment tests of the units. The Management believes that this change creates a more reliable illustration of the Group's net assets, financial position and results of operations. It had only an insignificant effect on the net assets, financial position and results of operation in the prior year, hence the prior year's value was not adjusted retrospectively. The **intangible assets with infinite useful lives** are pooled at the level of the respective country. The key money with an infinite useful life is allocable to various retail locations in France; viewed individually, these are not material. Brand rights for the use of the brand names in the U.S. and Italian markets are tested for impairment at country level.

(in EUR thousand)

	Carrying amount		Assumptions	
	Goodwill	**Intangible assets with indefinite useful life**	**WACC**	**Long-term growth rate**
2016				
DOS within the sales unit France	0	5,832	5.3%	3.4%
Sales unit Macau	6,818	0	5.7%	3.6%
Sales unit Australia	8,724	0	6.2%	3.5%
Sales unit South Korea	7,439	0	6.9%	3.5%
Sales unit China	8,704	0	6.2%	3.7%
Sales unit U.S.A.	266	13,615	6.8%	2.9%
Sales unit Italy	0	1,377	6.4%	2.5%
Other sales units	20,696	0		
TOTAL	**52,647**	**20,824**	**5.3–6.9%**	**2.5–3.7%**
2015				
DOS within the sales unit France	0	6,397	5.9%	3.2%
Sales unit Macau	6,610	0	6.3%	3.4%
Sales unit Australia	8,550	0	6.9%	4.9%
Sales unit South Korea	7,372	0	7.2%	3.7%
Sales unit China	10,188	0	6.8%	5.0%
Sales unit U.S.A.	257	13,615	7.1%	3.4%
Sales unit Italy	0	1,377	6.8%	2.5%
Other sales and production units	19,818	0		
TOTAL	**52,795**	**21,389**	**5.9–7.2%**	**2.5–5.0%**

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

No impairment losses were recognized on the goodwill in fiscal year 2016 and in the prior year.

The recoverable amount of brand rights with an indefinite life is determined on the basis of their fair value less costs to sell and classified at level 3 of the fair value hierarchy pursuant to IFRS 13. This is based on a sales forecast for the respective market approved by management as part of the budget process. Country-specific sales growth rates are also used. After the five-year detailed planning phase, planned sales are extrapolated using a long-term nominal retail growth rate for each of the respective markets.

No impairment losses were recognized on the brand rights with indefinite useful lives in fiscal years 2016 and 2015.

KEY ASSUMPTIONS USED TO CALCULATE THE VALUE IN USE AND FAIR VALUE LESS COSTS TO SELL

The following key assumptions, estimation uncertainties and judgments by management underlie the calculation of the value in use and fair value less costs to sell off the aforementioned assets:

- Nominal, long-term retail growth
- Gross profit margin
- Fixed cost development
- Discount rates
- Expected useful life of DOS

Management assumes that the underlying assumptions and estimates are appropriate. However, changes in the economic environment and the industry-specific growth assumptions can have consequences for impairment testing resulting in the need to recognize additional impairment losses or to reverse impairment losses in the future.

Estimation of growth rates – Growth rates are generally derived from published industry-related market research that is based on country-specific nominal retail growth. These growth rates were mainly factored in after the detailed planning phase and in the terminal value used to calculate the value in use. Based on past developments and the Management's expectations with regard to market trends, growth rates were applied that differ from the country-specific nominal retail growth. For the impairment tests of goodwill in China and South Korea, growth rates above the country-specific nominal retail growth were assumed in the following year due to the price adjustments made in Asia.

Estimation of gross profit margin – The planned gross profit margin factors in both efficiency improvements and margin shifts due to differences in the sales mix of the distribution channels. A constant gross profit margin is assumed after the detailed planning phase.

Fixed cost trends – The fixed cost trends are derived from growth of real gross domestic product in each country and the inflation rate in each country.

Discount rates – The discount rates reflect current market assessments of the risks specific to each CGU. This takes into account the interest effect and the risks specific to the assets.

Useful life of the DOS – The forecast period is based on the average remaining terms of the lease agreements, which are determined and reviewed annually. Prolongation options are taken into account when determining the average remaining terms.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

As of December 31, 2016, scenarios for critical measurement parameters such as the discount rates used and the growth rates underlying forecast cash flows were determined to verify the values in use determined. The Management of the HUGO BOSS Group considers it possible for the discount rate to increase by 10.0% on average in relative terms. In addition, for the groups of CGUs under review to which goodwill is allocated, an annual relative divergence in growth rates of 15.0% during the detailed planning phase is deemed possible. Furthermore, for the groups of CGUs to which goodwill is allocated, a 15.0% decrease in the relative sales growth rates underlying the extrapolation of forecast cash flows after the detailed planning phase is deemed possible.

In the case of a 10.0% increase in the discount rate, the values in use of all items of goodwill would exceed their carrying amounts as in the prior year.

In the event of a 15.0% reduction in the annual growth rates during the detailed planning phase, the values in use of all items of goodwill would exceed their carrying amounts. With respect to the goodwill for the groups of CGUs, there was a hypothetical write-down to be undertaken in the prior year in the event of a reduction of annual growth rates of 6% in South Korea or 12% in China, provided that costs remained the same.

In the event of a 15.0% reduction in the growth rate of sales used to extrapolate the forecast cash flow after the detailed planning period, the values in use of all items of goodwill would exceed their carrying amounts as in the prior year.

11| FINANCIAL AND OTHER ASSETS

(in EUR thousand)

	2016			2015		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Financial assets	49,331	28,339	20,992	50,969	29,017	21,952
Tax refund claims and prepayments	14,474	14,418	56	16,977	16,288	689
Other assets	86,117	81,884	4,233	92,204	88,294	3,910
Other financial assets	35	0	35	496	0	496
TOTAL	**149,957**	**124,641**	**25,316**	**160,646**	**133,599**	**27,047**

Financial assets include positive market values of currency hedges amounting to EUR 2,047 thousand (2015: EUR 6,677 thousand) as well as rent deposits for the Group's own retail stores of EUR 10,052 thousand (2015: EUR 14,053 thousand). Financial assets also include receivables from credit card companies amounting to EUR 21,563 thousand (2015: EUR 16,085 thousand).

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

Other assets contain refund claims from returns in the amount of EUR 16,098 thousand (2015: EUR 17,463 thousand), bonus receivables from supplier arrangements and prepayments for service agreements and leases. Impairment losses of EUR 246 thousand were recognized on other assets in the past fiscal year (2015: EUR 90 thousand).

Other financial assets include interests in entities under joint control accounted for using the equity method. The carrying amount of shares in the property companies whose activities consist of the leasing of buildings and associated properties remains unchanged at EUR 35 thousand. The maximum default risk is equal to this capital contribution. Other financial assets in the fiscal year 2015 also included the investment measured at amortized cost in subsidiaries which have been established but are not consolidated due to their immateriality.

The following is a summary of financial information for entities under joint control accounted for using the equity method. The information contained therein relates to 100 % of the associates and not to the Group's share of those associates.

(in EUR thousand)

	Dec. 31, 2016[1]	Dec. 31, 2015[2]
Non-current assets	108,899	118,285
Current assets	823	1,006
Liabilities	121,471	127,947
Sales	10,929	10,845
Depreciation and amortisation	(9,655)	(9,914)
Other interest and similar income	0	3
Interest and similar expenses	(4,102)	(4,158)
Net income/(loss)	(3,064)	(3,515)

[1] Figures are based on the preliminary financial statements as of December 31, 2016.

[2] Prior-year figures are based on the final financial statements as of December 31, 2015. Different values in the annual report 2015 occur due to preliminary end-of-year figures as at December 31, 2015.

12| INVENTORIES

(in EUR thousand)

	2016	2015
Finished goods and merchandise	523,067	512,056
Raw materials and supplies	39,572	41,719
Work in progress	5,332	5,734
TOTAL	**567,971**	**559,509**

The carrying amount of inventories recognized at net realizable value amount to EUR 74,863 thousand (2015: EUR 67,594 thousand). In the fiscal year 2016, impairment losses of EUR 22,327 thousand (2015: EUR 25,954 thousand) were recognized particularly on finished goods and raw material. This was counterbalanced by reversals of impairment losses of EUR 20,041 thousand (2015: EUR 15,208 thousand), following the sale of finished goods and raw materials on which impairment losses had previously been recognized. Impairment losses on inventories and the reversal of impairment losses previously charged resulted in net expense of EUR 2,231 thousand (2015: EUR 10,746 thousand). This is included in the cost of sales.

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

13| TRADE RECEIVABLES

(in EUR thousand)

	2016	2015
Trade receivables, gross	243,102	254,898
Accumulated allowance	(14,926)	(15,284)
Trade receivables, net	**228,176**	**239,614**

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

(in EUR thousand)

	2016	2015
Trade receivables, net	**228,176**	**239,614**
Thereof neither overdue, nor impaired	**182,511**	**177,148**
Thereof overdue, but not impaired	**39,075**	**56,682**
≤ 30 days	23,013	37,759
30 to 60 days	9,785	12,042
60 to 90 days	6,277	6,881
90 to 120 days	0	0
120 to 180 days	0	0
180 to 360 days	0	0
> 360 days	0	0
Thereof: overdue and impaired	**6,590**	**5,784**

Trade receivables are non-interest-bearing and are generally due between 30 and 90 days. Valuation allowances on doubtful debts developed as follows:

(in EUR thousand)

	2016	2015
Allowances for doubtful accounts as of January 1	**15,284**	**15,876**
Additions	8,660	4,454
Use	(5,644)	(1,940)
Release	(3,667)	(2,740)
Currency differences	293	(366)
Allowances for doubtful accounts as of December 31	**14,926**	**15,284**

Any expenses and income from allowances on trade receivables are reported under selling and distribution expenses.

Pursuant to the general terms and conditions for sales, ownership of the goods supplied is transferred to wholesale partners upon complete payment of all receivables. No collateral has been provided in the Group for individual receivables.

The recoverability of trade receivables is assessed based on the estimated likelihood of default. Accordingly, receivables from wholesale customers on whose assets insolvency proceedings have been initiated are written off in full (to the extent that any collateral provided is not recoverable) by recognizing individual bad debt allowances. Individual bad debt allowances ranging between 1% and 100% are recognized on overdue receivables. All subsidiaries of the HUGO BOSS Group have to prepare an analysis of the aging structure of their trade receivables. This permits the recognition of risk-adjusted valuation allowances. External appraisals on the value of collateral were also obtained in the course of assessing the recoverability of receivables.

In the event of the deterioration of the financial position of wholesale customers and concession partners, the amounts actually derecognized can exceed the bad debt allowances already recognized, which can have an adverse impact on the results of operations.

14| CASH AND CASH EQUIVALENTS

(in EUR thousand)

	2016	2015
Balances with banks and other cash items	70,525	74,380
Checks/ec-cash	1,032	650
Cash in hand	11,933	6,379
TOTAL	**83,490**	**81,409**

15| EQUITY

Equity is made up of subscribed capital, own shares, capital reserve, retained earnings and accumulated other comprehensive income. Retained earnings contain profits that were generated in the past by the entities included in the consolidated financial statements and effects from the revaluation of pension provisions. Accumulated other comprehensive income contains the differences arising from translation outside profit and loss of the foreign currencies used for the financial statements of foreign subsidiaries as well as the effects of the measurement outside profit and loss of cash flow hedges after tax.

SUBSCRIBED CAPITAL

Capital Management
The fully paid in share capital of HUGO BOSS AG is unchanged and amounts to EUR 70,400 thousand as of December 31, 2016. It is made up of 70,400,000 no-par value ordinary shares. The shares have an imputed nominal value of EUR 1 each.

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

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

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. The main levers for improving free cash flow are increasing sales and operating income, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items. Strict management of trade net working capital and value-oriented investment activities also support the development of free cash flow. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares.

No changes were made to the objectives, policies and methods as of December 31, 2016, and December 31, 2015.

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

(in EUR thousand)

	2016	2015
Liabilities due to banks	196,674	163,604
Cash and cash equivalents	(83,490)	(81,409)
Net financial liabilities	**113,184**	**82,195**
Operating profit	**493,085**	**594,057**
Total leverage	**0.2**	**0.1**

This ratio stood at 0.2 on the reporting date and was thus substantially lower than the maximum permissible value pursuant to the covenant agreed as part of the syndicated loan agreement refinanced in the fiscal year 2015.

OWN SHARES

The number of own shares amounts to 1.383.833 (2015: 1.383.833). The overall percentage amounts to 2,0% of subscribed capital (2015: 2,0%).

At the Annual Shareholder's Meeting of May 12, 2015, a resolution was passed authorizing the Managing Board to aquire at the Company's own shares up to a total of 10% of the current share capital until May 11, 2020.

16| DIVIDEND

Pursuant to the AktG ["Aktiengesetz": German Stock Corporation Act], the dividend that can be distributed to the shareholders is measured based on the net retained profit reported in the financial statements of HUGO BOSS AG amounting to EUR 183,040 thousand. The net retained profit of HUGO BOSS AG for 2016 proposed to the Annual Shareholders' Meeting for distribution amounts to EUR 179,442 thousand. This corresponds to EUR 2.60 per share. It is also proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 3,598 thousand be carried forward to the new account.

In 2016, a dividend of EUR 249,839 thousand was paid out for shares outstanding for the fiscal year 2015 (in 2015 for 2014: EUR 249,839 thousand). This corresponds to EUR 3.62 per share for 2015 (2014: EUR 3.62 per share).

17| PROVISIONS

(in EUR thousand)

	2016	2015
Provisions for pensions	46,495	39,323
Other non-current provisions	32,059	32,759
Non-current provisions	**78,554**	**72,082**
Current provisions	**148,614**	**102,773**
TOTAL	**227,168**	**174,855**

Other provisions of EUR 180,673 thousand (2015: EUR 135,532 thousand) comprise current provisions of EUR 148,614 thousand (2015: EUR 102,773 thousand) and other non-current provisions of EUR 32,059 thousand (2015: EUR 32,759 thousand). The risk-free interest rates used to discount non-current provisions range between 0.1 % and 4.5 % (2015: between 0.1 % and 4.5 %) depending on the term and currency zone in question.

In fiscal year 2016, other provisions developed as follows:

(in EUR thousand)

	Balance on Jan. 1, 2016	Currency differences	Compounding	Addition	Use	Release	Balance on Dec. 31, 2016
Provisions for personnel expenses	54,390	614	142	44,704	(31,129)	(8,527)	60,194
Provisions for goods returned	30,183	(503)	0	29,414	(23,235)	(5,496)	30,363
Provisions for rebuild obligations	14,198	(407)	111	2,570	(816)	(291)	15,365
Costs of litigation, pending legal disputes	5,897	(43)	0	1,714	(2,262)	(934)	4,372
Provisions for store closings	0	1,899	0	41,906	(6,922)	0	36,883
Miscellaneous provisions	30,864	73	0	17,094	(7,884)	(6,650)	33,496
TOTAL	**135,532**	**1,633**	**253**	**137,402**	**(72,248)**	**(21,898)**	**180,673**

PROVISIONS FOR PERSONNEL EXPENSES

The provisions for personnel expenses mainly concern the provisions for short and medium-term profit sharing and bonuses, severance payment claims, phased retirement arrangements and overtime. It is expected that EUR 15,435 thousand (2015: EUR 16,706 thousand) will be paid out in more than 12 months.

The long-term incentive (LTI) program initiated at the beginning of the fiscal year 2016 serves as a long-term share-based compensation component for members of the Managing Board and eligible management staff of the HUGO BOSS Group. The first tranche of the program, the LTI Bonus Plan 2016/2018, was issued on January 1, 2016, and has a term of a total of four years, split into a performance term of three years and a qualifying period of one year.

At the beginning of the performance term, all participants in the plan receive an individual number of virtual shares, so-called "performance shares", which are valued by dividing the individual LTI budget (in EUR) by the average HUGO BOSS share price over the last three months before the beginning of the performance term. The number of shares issued as of December 31, 2016, was 183,860. The final entitlement of the participants in the plan depends on the individual number of performance shares, the extent to which the preset targets have been achieved (components) – relative total shareholder return, return on capital employed, degree of employee satisfaction, DJSI (score in the Dow Jones Sustainability Index) over the performance term as well as the average HUGO BOSS share price over the last three months of the qualifying period. The final entitlement is paid out in cash no later than six weeks after the resolution has been passed by the Management of HUGO BOSS regarding the confirmation of the annual financial statement for the fiscal year 2019.

The long-term incentive program is to be classified as share-based, cash-settled compensation and is therefore accounted for pursuant to the standards of IFRS 2. For the liability, a provision is recognized pro rata over the term to satisfy the payment, which is recalculated on each reporting date. The evaluation is conducted using a Monte Carlo simulation, taking into account the degree to which the individual target components are expected to be achieved. The fair values per share option were between EUR 30.99 and EUR 45.56 as of December 31, 2016.

The fair value measurement is based on the following parameters:

	LTI 2016
HUGO BOSS share price at reporting date in EUR	58.13
Expected dividend return in %	4.00
Expected volatility in %	30.00
Risk-free interest rate in %	(0.76)

The provisions recognized in this regard were valued at EUR 1,455 thousand as of December 31, 2016. The LTI has an average remaining term of three years. In the fiscal year 2016, total expenses for share-based compensation pursuant to IFRS 2 of EUR 1,455 thousand were recorded in personnel expenses.

PROVISIONS FOR GOODS RETURNED

Provisions for goods returned, which are largely expected to be completed within 12 months, are determined based on historical rates of goods returned.

PROVISIONS FOR REBUILD OBLIGATIONS

Non-current provisions for rebuild obligations relate to Group-operated retail stores, warehouses and office space used by the Group companies. They are recognized on the basis of the expected settlement amounts and the rental period agreed upon. Estimates are made in terms of the cost as well as the actual timing of the utilization.

PROVISIONS FOR COSTS OF LITIGATION AND PENDING LEGAL DISPUTES

The provisions for costs of litigation and pending legal disputes include various, individually immaterial ongoing litigations as well as litigation costs for the protection of brand rights. These provisions are classified as current.

PROVISIONS FOR STORE CLOSURES

Provisions for store closures particularly relate to the expected compensation payments for lessors, primarily in Asia. The amount of the provisions for the planned store closures recognized at the end of the reporting period is based on judgments made by Management. The main judgments concern the type of closure (termination of lease in return for payment of compensation or the continued fulfillment of the lease by subletting the premises below the rental price) and the amount of the expected payments. The provisions recognized are based on the best possible estimate of the compensation payments and subletting proceeds. It is always possible for the actual compensation payable or the actual subletting proceeds received to differ from these assumptions. Any deviations between the original estimates and the actual outcome can impact the Group's net assets, financial position and results of operations in the given period.

MISCELLANEOUS OTHER PROVISIONS

Miscellaneous other provisions are also recognized for the potential ramifications of legal and tax issues.

Based on reasonable estimates, provisions are recognized for the potential ramifications of legal issues. Such assessment also takes into account the estimation of local, external experts such as lawyers and tax advisors. Any deviations between the original estimates and the actual outcome can impact the Group's net assets, financial position and results of operations in the given period.

18| PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions are recognized for obligations from future and current post-employment benefits to eligible current and former employees of the HUGO BOSS Group. The benefits agreed under the pension plans depend for the most part on the length of service of the eligible employee. In general, company pension plans are classified into two types of plans: defined contribution plans and defined benefit plans. In the HUGO BOSS Group most of the plans are defined benefit plans. In the past year, the main defined benefit plans were granted in Germany, Switzerland and Turkey. The characteristics of these plans are described in the following.

DEFINED BENEFIT PLANS

GERMANY

Since the fiscal year 2014, there have only been direct pension obligations in Germany. A distinction is also made between general and individually agreed benefits. Under the general benefits granted, each employee who joined the Company prior to July 1, 2012, is entitled to benefits from Company pension plans. Employees who first receive benefits under the plan upon reaching the age of 50 or who have temporary employment agreements are excluded. Benefits comprise a post-employment benefit in the form of an old-age pension, an early-retirement benefit, a disability benefit or a surviving dependents' benefit in the form of a dependent child benefit.

Individually agreed benefits are only granted to active and former members of the Managing Board. Benefits can take the form of a post-employment benefit as an old-age pension or disability annuity and take the form of a surviving dependents' benefit as a surviving spouse or dependent child benefit. All active members of the Managing Board have received pension commitments which are regulated in individual contracts and the amounts of which are measured as a percentage of the contractually agreed pensionable income depending on their duration of membership of the Managing Board. The basis for determining the pensionable income is defined as the basic salary under the service agreement. For Mark Langer, the Chairman of the Managing Board, this is done in the form of a benefit-based commitment (defined benefit). The members of the Managing Board appointed in the fiscal year 2016 were granted pension commitments. An annual pension contribution into an employer's pension liability insurance scheme taken out on the life of the Managing Board member. The contribution corresponds to 40% of the pensionable income, which is determined based on the basic salary under the service agreement. This form of pension commitment also applies to any future appointments to the Managing Board.

In addition, the HUGO BOSS Group offers the Managing Board and management staff the option of acquiring additional pension benefits under deferred compensation agreements. This supplementary pension plan can take the form of retirement benefits or, alternatively, the form of occupational incapacity benefits and/or surviving dependents' benefits and/or the form of a lump-sum death grant. The pension benefits take the form of monthly payments, while surviving dependents' benefits can also be granted in the form of a lump-sum capital payment.

In Germany, the company pension plan for individually agreed benefits and deferred compensation agreements is funded by plan assets for which there is an employer's pension liability insurance, which is a qualifying insurance policy within the meaning of IAS 19.8 in conjunction with IAS 19.113 et seq. The assets concerned can be classified as non-marketable assets. Employer's pension liability insurance has not been taken out for general benefits granted.

SWITZERLAND

In Switzerland, employee pension plans must be allocated to a pension fund that is separate from the employer. The BVG ["Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge": Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans] imposes minimum benefits. HUGO BOSS uses a collective foundation to provide for its employees against the economic consequences of old age, disability and death. Under this model, the foundation assets are the plan assets. The board of trustees of the collective foundation is responsible for the investment policy; at present the majority of plan assets are invested in fixed interest securities such as sovereign bonds. The supreme governing body of the collective foundation comprises an equal number of employer and employee representatives. The plans are financed by employer and employee contributions, which are defined as a percentage of the insured wage. The old-age pension is calculated as the retirement assets accumulated upon reaching a pensionable age multiplied by the conversion rates specified in the fund regulations. Employees can opt to receive their pension benefits as a lump-sum payment from the retirement assets. The benefit payments under the Swiss plans encompass old-age pensions, disability benefits and surviving dependents' benefits. The collective foundation can change its financing system (contributions and future benefits) at any time. In addition, the collective foundation can terminate the affiliation agreement with HUGO BOSS; in such an event, the latter would have to join another welfare fund. Depending on the conditions of the affiliation agreement and the current partial liquidation rules, a deficit and the risks of increasing life expectancy (current pensions) can be transferred.

The pension obligations of the HUGO BOSS Group break down as follows:

(in EUR thousand)

	Present Value of the Defined Benefit Obligation		**Fair Value of Plan Assets**		**Net Defined Benefit Liability**	
	2016	2015	**2016**	2015	**2016**	2015
Germany	100,219	85,085	79,926	70,541	20,293	14,544
Switzerland	46,877	44,952	30,030	28,543	16,847	16,409
Others[1]	9,355	8,370	0	0	9,355	8,370
TOTAL	**156,451**	**138,407**	**109,956**	**99,084**	**46,495**	**39,323**

[1] Additional defined benefit plans are in place in Turkey, Italy, France, Mexico and Austria.

The amount of the pension obligations was determined using actuarial methods in accordance with IAS 19 "Employee Benefits".

In fiscal year 2016, the funding status of benefit obligations pursuant to IAS 19 was as follows:

(in EUR thousand)

	2016	2015
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	138,407	124,594
Currency differences	(517)	3,318
Service cost	7,701	7,169
Interest expense	3,083	2,808
Payments from settlements	(702)	0
Remeasurement of the carrying amount		
Actuarial gains/losses due to changes in financial assumptions	13,003	(2,377)
Actuarial gains/losses due to changes in demographic assumptions	(2,204)	2,317
Experience adjustments	(1,186)	(99)
Benefits paid	(4,366)	(2,777)
Contribution by participants of the plan	3,696	4,155
Past service cost	(279)	(774)
Other changes in benefit obligation	(185)	73
Present value of benefit obligation on December 31	**156,451**	**138,407**
Changes in plan assets		
Fair value of plan assets on January 1	99,084	78,966
Currency differences	274	2,397
Offsetting with plan assets	0	0
Expected return on plan assets	2,092	1,651
Expected return on plan assets (without interest income)	4,961	3,839
Benefits paid	(3,576)	(1,496)
Contribution by the employer	3,481	9,572
Contribution by participants of the plan	3,696	4,155
Asset ceiling pursuant to IAS 19.58	0	0
Other changes in benefit obligation	(55)	0
Fair value of plan assets on December 31	**109,957**	**99,084**
Funding status of the benefits funded by plan assets	**46,494**	**39,323**

As of December 31, 2016 EUR 97,827 thousand (2015: EUR 82,810 thousand) of the present value of the defined benefit obligations was funded through employer's pension liability insurance and EUR 46,877 thousand (2015: EUR 44,952 thousand) through foundation assets, while the remaining EUR 11,747 thousand (2015: EUR 10,645 thousand) was unfunded.

ACTUARIAL ASSUMPTIONS UNDERLYING THE CALCULATION OF THE PRESENT VALUE OF THE PENSION OBLIGATIONS AS OF DECEMBER 31, 2016

Discretion is exercised to the extent that the expense from benefit-based plans is determined based on actuarial calculations. This involves making assumptions about discount rates, future wage and salary increases, mortality rates and future pension increases. The discount rates used are based on the market yields of high-quality, fixed-interest corporate bonds.

The following premises were defined:

Actuarial assumptions	**2016**	2015
Discount rate		
Germany	1.80%	2.50%
Switzerland	0.70%	0.90%
Future pension increases		
Germany	1.75%	1.75%
Switzerland	0.00%	0.00%
Future salary increases		
Germany	2.50%	2.50%
Switzerland	3.00%	3.00%

Pension benefits in Germany are determined on the basis of biometric principles in accordance with the 2005 G mortality tables of Prof. Dr. Klaus Heubeck. The BVG 2010 mortality tables are used to measure the obligations of Swiss companies.

SENSITIVITY ANALYSIS OF KEY ACTUARIAL ASSUMPTIONS

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

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

A change in the key actuarial parameters according to the scenarios presented below has the effects presented in the table below on the present value of the pension obligations as of December 31, 2016.

When conducting the sensitivity analysis, each parameter was altered ceteris paribus and not in combination with changes in other assumptions, thus excluding interdependencies between parameters. In addition, only ranges of values deemed to be reasonably plausible up to the date of preparing the HUGO BOSS Group's next set of consolidated financial statements were selected.

(in EUR thousand)

Actuarial assumptions	**2016**	2015
Discount rate		
December 31,		
Increase of 75 basis points	(18,469)	(15,643)
Decline of 75 basis points	22,537	19,401
Future pension increases		
December 31,		
Increase of 25 basis points	5,138	4,295
Decline of 25 basis points	(3,400)	(2,758)
Future salary increases		
December 31,		
Increase of 50 basis points	1,587	1,978
Decline of 50 basis points	(1,535)	(1,888)
Life expectancy		
December 31,		
Increase of 10 percent	4,773	3,741
Decline of 10 percent	(4,769)	(4,086)

BREAKDOWN OF THE PENSION EXPENSES IN THE PERIOD

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

(in EUR thousand)

	2016	2015
Current service costs	7,701	7,169
Past service costs	(279)	(774)
Net interest costs	990	1,158
Recognized pension expenses in the comprehensive statement of income	**8,412**	**7,553**
Expense from plan assets (without interest effects)	(4,961)	(3,839)
Recognized actuarial (gains)/losses	9,613	(159)
Asset ceiling (without interest effects of asset ceiling)	0	0
Recognized remeasurement of the carrying amount in the comprehensive statement of income	**4,652**	**(3,998)**

The net interest expense is calculated by multiplying the net pension obligation by the discount rate underlying the measurement of the defined benefit obligation (DBO).

In the case of deferred compensation commitments, current service cost is only incurred in the year of deferral. An increase in the service rendered does not increase the benefits granted.

For fiscal year 2017, the Group expects employer contributions to plan assets of EUR 3,500 thousand (2016: EUR 5,438 thousand).

DURATION

The duration of the benefit-based plans of the HUGO BOSS Group on December 31 stood at 18 years for Germany (18 years) and 16 years for Switzerland (15 years).

DEFINED CONTRIBUTION PLANS

Employer contributions to contribution-based plans totaled EUR 17,852 thousand in the past fiscal year (2015: EUR 16,883 thousand) and are reported under personnel expenses. The HUGO BOSS Group's main contribution-based plans are in Germany and the United States. They receive the contributions to statutory pension insurance and the employer's contribution to employer-funded direct insurance in Germany.

19| FINANCIAL LIABILITIES

All interest-bearing and non-interest-bearing obligations as of the respective reporting date are reported under financial liabilities. They break down as follows:

(in EUR thousand)

	2016	**With remaining term up to 1 year**	2015	With remaining term up to 1 year
Financial liabilities due to banks	196,674	73,191	163,604	38,691
Other financial liabilities	14,514	5,877	12,846	2,783
TOTAL	**211,188**	**79,068**	**176,450**	**41,474**

Other financial liabilities include negative market values from derivative financial instruments amounting to EUR 6,577 thousand (2015: EUR 3,807 thousand) and liabilities under finance leases of EUR 7,936 thousand (2015: EUR 9,039 thousand).

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

	2016		2015	
Remaining term	**Weighted average interest rate**	**Carrying amount EUR thousand**	Weighted average interest rate	Carrying amount EUR thousand
Liabilities due to banks				
Up to 1 year	0.28 %	73,191	1.28 %	38,691
1 to 5 years	0.71 %	107,868	0.68 %	95,398
More than 5 years	4.00 %	15,615	2.95 %	29,515
Other financial liabilities				
Up to 1 year	1.41 %	5,877	2.88 %	2,783
1 to 5 years	4.12 %	8,182	4.06 %	8,090
More than 5 years	5.72 %	455	4.32 %	1,973

Following the refinancing of the syndicated credit facility in the fiscal year 2015, the non-current part of the financial liabilities was kept at the same amount and the less expensive current financial facilities were utilized. By contrast to the prior year, the share of non-interest-bearing financial liabilities has risen. As of the reporting date, they contain currency derivatives with negative market values.

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

(in EUR thousand)

2016		**Expected cash flows**			
Non-derivative financial liabilities	**Carrying amount**	**Total cash flows**	**< 1 year**	**1 – 5 years**	**> 5 years**
Financial liabilities due to banks	196,674	204,804	70,839	116,976	16,989
Liabilities from finance leases	7,936	8,286	1,476	6,810	0
Derivative financial liabilities					
Undesignated derivatives	4,519	4,519	2,399	1,666	454
Derivatives subject to hedge accounting	2,058	2,058	2,058	0	0
Other financial liabilities	0	0	0	0	0
TOTAL	**211,188**	**219,667**	**76,772**	**125,452**	**17,443**
2015					
Non-derivative financial liabilities					
Financial liabilities due to banks	163,604	173,586	39,752	112,235	21,599
Liabilities from finance leases	9,039	9,503	1,441	6,637	1,425
Derivative financial liabilities					
Undesignated derivatives	3,265	3,265	896	1,730	639
Derivatives subject to hedge accounting	542	542	542	0	0
Other financial liabilities	0	0	0	0	0
TOTAL	**176,450**	**186,896**	**42,631**	**120,602**	**23,663**

20| OTHER LIABILITIES

(in EUR thousand)

	2016			2015		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Other liabilities	164,452	115,099	49,353	167,722	125,480	42,242
From accruals of rental obligations for the Group's own retail business	80,071	32,848	47,223	70,845	32,391	38,454
From taxes	40,516	40,516	0	38,104	38,104	0
From social security, accrued vacation, wages and salaries	22,931	22,931	0	23,861	23,861	0

21| ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

CARRYING AMOUNTS AND FAIR VALUES BY CATEGORY OF FINANCIAL INSTRUMENTS

(in EUR thousand)

		2016		2015	
Assets	IAS 39 category	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	LaR	83,490	83,490	81,409	81,409
Trade receivables	LaR	228,176	228,176	239,614	239,614
Other financial assets		49,331	49,331	51,430	51,430
Thereof:					
Available-for-sale investments	AfS	0	0	461	461
Undesignated derivatives	FAHfT	2,047	2,047	5,942	5,942
Derivatives subject to hedge accounting	n. a.	0	0	736	736
Other financial assets	LaR	47,284	47,284	44,291	44,291
Liabilities					
Financial liabilities due to banks	FLAC	196,674	199,403	163,604	165,513
Trade payables	FLAC	271,731	271,731	271,506	271,506
Other financial liabilities		14,514	14,514	12,846	12,846
Thereof:					
Undesignated derivatives	FLHfT	4,519	4,519	3,265	3,265
Derivatives subject to hedge accounting	n. a.	2,058	2,058	542	542
Liabilities from finance leases	n. a.	7,937	7,937	9,039	9,039
Other financial liabilities	FLAC	0	0	0	0

The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, trade receivables, other financial assets, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of loans from banks and other financial liabilities, obligations under finance leases and other non-current financial liabilities is calculated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

As of December 31, 2016, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The credit risk of the counterparty did not lead to any significant effects.

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value and are not based on observable market data.

As of December 31, 2016, as in the prior year, all financial instruments measured at fair value in the categories FAHfT, FLHfT and derivatives designated to a hedge relationship were assigned to level 2. During fiscal year 2016, there were no transfers between level 1 and level 2 or from level 3. The financial instruments measured at fair value comprised forward exchange contracts, currency swaps and interest derivatives. These were assigned to the categories FAHfT, FLHfT and derivatives used for hedging. The assets amounted to EUR 2,047 thousand and liabilities to EUR 6,578 thousand. The fair value of financial instruments carried at amortized cost in the statement of financial position was likewise determined using a level 2 method.

INTEREST AND CURRENCY RISK HEDGES

To hedge against interest and currency risks, the HUGO BOSS Group enters into hedging transactions in some areas to mitigate risk. As of the reporting date, EUR 9,627 thousand (2015: EUR 10,299 thousand) in variable interest finance liabilities were hedged through interest rate swaps. Moreover, as of the reporting date, future cash flows in foreign currencies of EUR 24,978 thousand (2015: EUR 24,349 thousand) were hedged and fully designated as an effective hedging instrument. The change in unrealized gains/losses from marking hedges to market in other comprehensive income amounted to EUR -2,252 thousand (2015: EUR 1,229 thousand).

NET RESULT BY MEASUREMENT CATEGORY

(in EUR thousand)

	Interest income and expenses	Changes in fair value	Currency translation	Bad debt losses	Disposal of financial instruments	2016	2015
Derivatives (FAHfT and FLHfT)	0	183	0	0	(12,881)	(12,698)	(9,909)
Loans and Receivables (LaR)	1,567	0	5,620	(4,524)	0	2,663	(12,991)
Financial liabilities measured at amortized cost (FLAC)	(2,384)	0	2,369	0	0	(15)	(1,223)

Interest on financial instruments is reported in the interest result (cf. notes to the consolidated income statement, Note 5).

The bad debt allowances recognized on trade receivables allocable to the loans and receivables measurement category are reported under selling and distribution expenses.

Exchange gains and losses from the translation of foreign currency receivables and liabilities as well as fair value changes and effects of disposals of exchange rate hedges are reported in the other financial result.

OFFSETTING OF FINANCIAL INSTRUMENTS

(in EUR thousand)

	Gross amounts recognized assets	Gross amounts offset liabilities	Net asset amounts disclosed in statement of fin. pos.	Liabilities not offset in the statement of fin. pos.	Cash deposits received not offset in the statement of fin. pos.	Net amounts
2016						
Trade receivables	245,579	(17,403)	228,176	0	0	228,176
Other financial assets	49,331	0	49,331	(1,187)	0	48,144
Thereof derivatives	2,047	0	2,047	(1,187)	0	860
TOTAL	**294,910**	**(17,403)**	**277,507**	**(1,187)**	**0**	**276,320**
2015						
Trade receivables	252,954	(13,340)	239,614	0	0	239,614
Other financial assets	51,430	0	51,430	(867)	0	50,563
Thereof derivatives	6,678	0	6,678	(867)	0	5,811
TOTAL	**304,384**	**(13,340)**	**291,044**	**(867)**	**0**	**290,177**

(in EUR thousand)

	Gross amounts recognized liabilities	Gross amounts offset assets	Net liabilities amounts disclosed in statement of fin. pos.	Assets not offset in the statement of fin. pos.	Cash deposits received not offset in the statement of fin. pos.	Net amounts
2016						
Trade payables	277,882	(6,151)	271,731	0	0	271,731
Other financial liabilities	14,514	0	14,514	(1,187)	0	13,327
Thereof derivatives	6,577	0	6,577	(1,187)	0	5,390
TOTAL	**292,396**	**(6,151)**	**286,245**	**(1,187)**	**0**	**285,058**
2015						
Trade payables	277,882	(6,376)	271,506	0	0	271,506
Other financial liabilities	12,846	0	12,846	(867)	0	11,979
Thereof derivatives	3,807	0	3,807	(867)	0	2,940
TOTAL	**290,728**	**(6,376)**	**284,352**	**(867)**	**0**	**283,485**

The liabilities of EUR 17,403 thousand (2015: EUR 13,340 thousand) offset against trade receivables as of the reporting date are outstanding credit notes to customers. The assets offset against trade payables are receivables in the form of supplier credit notes of the HUGO BOSS Group. These amounted to EUR 6,151 thousand (2015: EUR 6,376 thousand).

Standard master agreements for financial future contracts are in place between the HUGO BOSS Group and its counterparties governing the offsetting of derivatives. These prescribe that derivative assets and derivative liabilities with the same counterparty can be combined into a single offsetting receivable.

HEDGING POLICY AND FINANCIAL DERIVATIVES

The following presentation shows the nominal amounts and the fair value of derivative financial instruments:

(in EUR thousand)

	2016		2015	
	Nominal-values	**Fair values**	Nominal-values	Fair values
Assets				
Currency hedging contracs	135,549	2,047	241,709	6,677
Interest hedging contracts	0	0	0	0
Liabilities				
Currency hedging contracs	(159,002)	(3,917)	(67,754)	(867)
Interest hedging contracts	(9,627)	(2,661)	(10,299)	(2,940)
TOTAL	**(33,080)**	**(4,531)**	**163,656**	**2,870**

The nominal values are amount hedged by the corresponding hedge.The fair values of derivative financial instruments are recognized as other financial assets or as other financial liabilities. They do not necessarily correspond to the amounts that will be generated in the future under normal market conditions.

Of the reported fair value from derivative financial instruments, an amount of EUR -2,472 thousand (2015: EUR 2,677 thousand) stems from financial assetss and liabilities that were classified as held for trading.

No effects from the fair value measurement of interest hedges were recognized in other comprehensive income as of December 31, 2016 (2015: EUR 0 thousand) or were recycled through the income statement (2015: expenses of EUR -1,161 thousand). The recycled expenses from the fiscal year 2015 break down into interest expense of EUR -449 thousand, income from deferred taxes of EUR 112 thousand, and expenses of EUR 824 thousand from the premature dissolution of the interest hedges, after the deduction of deferred taxes.

The negative effects from the fair value measurement of currency hedges of EUR -2,058 thousand were recognized in other comprehensive income as of December 31, 2016 (2015: EUR 194 thousand). Of the amount recognized in other comprehensive income, income of EUR 194 thousand was recycled through the income statement in fiscal year 2016 (2015: EUR 513 thousand). The fair value changes came to EUR -2,058 thousand (2015: EUR 194 thousand).

OTHER NOTES

22| CONTINGENT LIABILITIES

Contingent liabilities arising from the provision of collateral for third-party liabilities are valued at EUR 8,547 thousand as of December 31, 2016 (2015: EUR 8,547 thousand) and relate to the consolidated structured entities BIL Leasing Verwaltungs-GmbH & Co. 869 KG, ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstrasse KG and ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG.

Under terms of the sale of the production site in Cleveland, Ohio, in the second quarter of 2015 and the transfer of production staff to the purchaser, HUGO BOSS Cleveland Inc. accepted subsidiary liability in connection with the termination of its participation in the existing multi-employer pension fund. If the purchaser terminates its participation in the pension plan before the expiry of five years and is unable to pay a settlement amount in favor of the pension fund, HUGO BOSS Cleveland Inc. in its capacity as the seller is liable under the Employee Retirement Income Security Act for an amount equaling the present value of the obligations calculated using actuarial methods, which is capped at about USD 6.4 million. Management considers the case of liability occurring as not likely. Hence no provisions have been set aside as of the reporting date.

23| OTHER FINANCIAL OBLIGATIONS

OPERATING LEASES

Rental expenses under operating leases of EUR 405,475 thousand were recognized in fiscal year 2016 (2015: EUR 364,914 thousand). Thereof contingent sales-based rental expenses amounted to EUR 135,353 thousand (2015: EUR 104,292 thousand).

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

(in EUR thousand)

2016	**Due 2017**	**Due 2018 – 2021**	**Due after 2021**	**TOTAL**
Sum of future minimum lease payments (operating lease)	275,845	778,694	372,705	**1,427,244**
Other obligations	2,341	3,386	84	**5,811**
TOTAL	**278,186**	**782,080**	**372,789**	**1,433,055**

2015	Due 2016	Due 2017 – 2020	Due after 2020	**TOTAL**
Sum of future minimum lease payments (operating lease)	254,638	776,587	377,872	**1,409,097**
Other obligations	2,170	4,128	124	**6,422**
TOTAL	**256,808**	**780,715**	**377,996**	**1,415,519**

The other obligations line item contains other service and maintenance agreements.

The main real estate lease agreements (operating leases) for the use of buildings and associated land include purchase options and, in some cases, renewal options for the respective property.

In fiscal year 2016, the Group earned income of EUR 163 thousand from subleases (2015: EUR 137 thousand). Total future minimum lease payments from subleases as of the reporting date December 31, 2016, which are expected to be received as they pertain to non-cancelable leases, amount to EUR 161 thousand (2015: EUR 315 thousand).

FINANCE LEASES

The assets had a net carrying amount of EUR 8,632 thousand as of December 31, 2016 (2015: EUR 9,083 thousand), which is reported within property, plant and equipment. This figure includes IT servers in the amount of EUR 1,140 thousand (2015: EUR 1,465 thousand) and a warehouse and the land on which it is located in the amount of EUR 7,493 thousand (2015: EUR 7,618 thousand). Interest expenses and depreciation for fiscal year 2016 came to EUR 737 thousand (2015: EUR 193 thousand).

(in EUR thousand)

2016	**Due 2017**	**Due 2018 – 2021**	**Due after 2021**	**TOTAL**
Minimum lease payments	1,452	6,586	0	**8,037**
Estimated amount representing interest	32	69	0	**101**
Present value of minimum lease payments	**1,420**	**6,516**	**0**	**7,936**

2015	Due 2016	Due 2017 – 2020	Due after 2020	**TOTAL**
Minimum lease payments	1,382	6,455	1,336	**9,173**
Estimated amount representing interest	36	96	2	**134**
Present value of minimum lease payments	**1,346**	**6,359**	**1,334**	**9,039**

The Group has entered into leases for retail stores, office space, warehouses, land and IT servers. The leases for the retail stores operated by the Group, office space and warehouses are classified as operating leases on the basis of the customary limits for determining the proportion of the useful life of the assets in question and the present value of the minimum lease payments. In this connection, it has been determined that the opportunities and risks arising from ownership of this floor space and real estate leased under operating leases remain with the corresponding property companies and lessors. On the other hand, the leases for a warehouse and the land on which it is located in Midway, Georgia, U.S., and for IT servers in Metzingen provide for the material opportunities and risks arising from ownership to be transferred to the lessee. Accordingly, they are classified as finance leases.

24| NOTES TO THE STATEMENT OF CASH FLOWS

The statement of cash flows of the HUGO BOSS Group shows the change in cash and cash equivalents over the reporting period using cash transactions. In accordance with IAS 7, the sources and applications of cash flows are categorized according to whether they relate to operating, investing or financing activities. The cash inflows and outflows from operating activities are calculated indirectly on the basis of the Group's net profit for the period. By contrast, cash flows from investing and financing activities are directly derived from the cash inflows and outflows. The changes in the items of the statement of financial position presented in the statement of cash flows cannot be derived directly from the statement of financial position on account of exchange rate translations.

A more detailed description of cash flows reported in the consolidated statement of cash flows is available in the chapter "Cash and cash equivalents".

Non-cash expenses and income concern in particular unrealized exchange rate gains and losses, fair value changes of derivative financial instruments recognized in profit or loss and non-cash changes in financial liabilities.

25| SEGMENT REPORTING

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

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

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

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

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

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

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

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

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

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

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

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

(in EUR thousand)

	Europe[1]	Americas	Asia/Pacific	Licenses	TOTAL operating segments
2016					
Sales	**1,660,006**	**581,862**	**381,492**	**69,486**	**2,692,846**
Segment profit	**518,628**	**133,192**	**79,528**	**59,162**	**790,510**
In % of sales	31.2	22.9	20.8	85.1	29.4
Segment assets	245,669	202,729	86,980	23,700	559,078
Capital expenditure	58,352	31,206	19,157	0	108,715
Impairments	(10,005)	(14,649)	(5,720)	0	(30,374)
Thereof property, plant and equipment	(7,769)	(14,461)	(5,310)	0	(27,540)
Thereof intangible assets	(2,236)	(188)	(410)	0	(2,834)
Depreciation/amortization	(50,257)	(26,879)	(25,401)	0	(102,537)
2015					
Sales	**1,683,249**	**670,480**	**392,929**	**62,088**	**2,808,746**
Segment profit	**535,382**	**187,443**	**99,963**	**51,634**	**874,422**
In % of sales	31.8	28.0	25.4	83.2	31.1
Segment assets	258,285	239,598	115,246	18,404	631,533
Capital expenditure	65,989	46,089	41,879	0	153,957
Impairments	(6,053)	(6,255)	(5,418)	0	(17,726)
Thereof property, plant and equipment	(4,931)	(6,224)	(5,418)	0	(16,573)
Thereof intangible assets	(1,122)	(31)	0	0	(1,153)
Depreciation/amortization	(32,685)	(25,079)	(24,454)	0	(82,218)

[1] Including Middle East/Africa.

RECONCILIATION

SALES

(in EUR thousand)

	2016	2015
Sales – operating segments	**2,692,846**	**2,808,746**
Corporate units	0	0
Consolidation	0	0
TOTAL	**2,692,846**	**2,808,746**

OPERATING INCOME

(in EUR thousand)

	2016	2015
Segment profit – operating segments	**790,510**	**874,422**
Depreciation/amortization – operating segments	(102,537)	(82,218)
Impairments – operating segments	(30,374)	(17,726)
Other operating expense/income – operating segments	(53,029)	(2,323)
Operating income (EBIT) – operating segments	**604,570**	**772,155**
Corporate units	(337,340)	(329,120)
Consolidation	(3,727)	4,677
Operating income (EBIT) HUGO BOSS Group	**263,503**	**447,712**
Net interest income/expenses	**(2,162)**	**(5,901)**
Other financial items	**(5,705)**	**(21,837)**
Earnings before taxes HUGO BOSS Group	**255,636**	**419,974**

SEGMENT ASSETS

(in EUR thousand)

	2016	2015
Segment assets – operating segments	**559,078**	**631,533**
Corporate units	237,069	167,590
Consolidation	0	0
Current tax receivables	42,617	21,124
Current financial assets	28,339	29,017
Other current assets	96,302	104,582
Cash and cash equivalents	83,490	81,409
Non-current assets held for sale	0	487
Current assets HUGO BOSS Group	**1,046,895**	**1,035,742**
Non-current assets	751,727	764,603
Total assets HUGO BOSS Group	**1,798,622**	**1,800,345**

CAPITAL EXPENDITURES

(in EUR thousand)

	2016	2015
Capital expenditure – operating segments	**108,715**	**153,957**
Corporate units	48,041	66,384
Consolidation	0	0
TOTAL	**156,756**	**220,341**

IMPAIRMENTS

(in EUR thousand)

	2016	2015
Impairment – operating segments	**30,374**	**17,726**
Corporate units	(15)	0
Consolidation	0	0
TOTAL	**30,359**	**17,726**

DEPRECIATION/AMORTIZATION

(in EUR thousand)

	2016	2015
Depreciation/amortization – operating segments	**102,537**	**82,218**
Corporate units	36,283	42,155
Consolidation	0	0
TOTAL	**138,820**	**124,373**

GEOGRAPHIC INFORMATION

(in EUR thousand)

	Third party sales		Non-current assets	
	2016	2015	**2016**	2015
Germany	448,375	464,753	211,825	203,769
Other European markets	1,211,631	1,218,510	210,414	218,314
U.S.A.	439,925	529,799	64,763	68,891
Other North, Central and South American markets	141,934	140,667	15,701	18,441
China	211,466	232,271	31,984	42,004
Other Asian markets	170,029	160,658	56,362	61,052
Licenses	69,486	62,088	15,001	15,014
TOTAL	**2,692,846**	**2,808,746**	**606,050**	**627,485**

26| RELATED PARTY DISCLOSURES

In the reporting period from January 1 to December 31, 2016, the following transactions requiring disclosure were conducted with related parties:

PARENT COMPANY

Following the sale of all their shareholdings on March 17, 2015, Permira Holdings Limited, Guernsey, and the parties related to it, no longer constituted related parties as defined in IAS 24 as of December 31, 2015. In the prior year, no legal transactions were conducted with Permira Holdings Limited, Guernsey, as the former ultimate parent company of the HUGO BOSS Group, or with companies affiliated with this company.

NON-CONSOLIDATED SUBSIDIARIES

In the fiscal year 2016, no transactions were conducted with non-consolidated subsidiaries. In the fiscal year 2015, sales of EUR 575 thousand arose from business relations with non-consolidated subsidiaries and were matched by outstanding receivables of the same amount as of December 31, 2015.

ENTITIES UNDER JOINT CONTROL

Within the scope of existing real estate lease agreements, rents in the amount of EUR 11,693 thousand were paid to companies under joint control in fiscal year 2016 (2015: EUR 11,576 thousand). There were no open liabilities relating to these business transactions as at December 31, 2016. The lease agreements also include purchase options for the respective property at expected marked value. In addition, the agreement with Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG contains a renewal option to market conditions. The remaining term of the non-cancellable lease agreements is 11 years at GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG and 9 years at Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG.

A construction support services agreement is also in place between Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG and HUGO BOSS AG. Prior to the commencement of operations at the flat-packed goods distribution center, this encompassed the preparation, execution and supervision of construction projects, including preparation of building applications, validation of invoicing and the conclusion of agreements on behalf and for the account of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. The construction services contract was extended after the distribution center went into operation to ensure that structural and technical modifications could be made in the period from 2015 until 2024. In 2016, HUGO BOSS AG received a lump-sum amount of EUR 10 thousand in consideration of the construction support services provided (2015: EUR 10 thousand).

RELATED PARTIES

Related parties comprise members of the Managing Board and Supervisory Board. Members of the Supervisory Board and Managing Board are reported on pages 206 to 207.

Compensation for the Managing Board

The expense for short-term employee benefits totaled EUR 2,387 thousand in 2016 (2015: EUR 4,498 thousand). In 2016, a service cost of EUR 1,360 thousand was incurred for company pension plans (2015: EUR 2,033 thousand). An income of EUR 59 thousand was incurred for other long-term employee benefits reportable in 2016 (2015: expense of EUR 564 thousand). For share-based compensation, the expense in 2016 was EUR 193 thousand (2015: EUR 0 thousand). Expenses for the termination of employment contracts amounting to EUR 10,610 thousand were recognized under "Other operating expenses and income".

Total compensation of the members of the Managing Board within the meaning of Sec. 314 (1) No. 6 a) Clauses 1 to 4 HGB came to EUR 3,613 thousand in the fiscal year 2016 (2015: EUR 4,918 thousand). Of this amount, EUR 2,261 thousand was attributable to basic compensation including fringe benefits (2015: EUR 3,690 thousand). An amount of EUR 113 thousand (2015: EUR 644 thousand) is accounted for by the Short Term Incentive (STI) agreed for the fiscal year 2016, an amount of EUR 13 thousand being attributable to a one-time special compensation. The multiple-year bonus for the period from 2014 until 2016 accounts for a total of EUR 167 thousand (2015: EUR 584 thousand). The LTI for 2016–2018 relates to an amount of EUR 1,061 thousand (2015: EUR 0 thousand), which results in 20,998 subscription rights in 2016. The STI for 2016 and the multiple-year bonus for 2014 to 2016 will be paid in the fiscal year 2017 within a week of the Supervisory Board approving the consolidated financial statements for 2016 for payment.

In fiscal year 2016, the Managing Board was entitled to advance installments of the multiple-year bonus for fiscal years 2015–2017 totaling EUR 540 thousand (2015: EUR 540 thousand advance installments of the multiple-year bonus 2014–2016), which will ultimately be measured by the target realization for the multiple-year period 2015–2017. This advance installment was offset with the amount of the advance bonus payment of the multiple-year bonus 2013–2015 of EUR 429 thousand in excess of the actual achievement. As of the reporting date, the advance installments granted towards the multiple-year bonuses for 2014–2016 and 2015–2017 total EUR 1,080 thousand (2015: EUR 5,688 thousand). Moreover, no loans were granted to nor contingent liabilities assumed in favor of members of the Managing Board in fiscal year 2016.

In 2016, former members of the Managing Board and their surviving dependents received total compensation of EUR 12,051 thousand (2015: EUR 245 thousand). This includes termination benefits of EUR 11,741 thousand. The advance bonus payments of EUR 3,360 thousand accruing in earlier years were deducted from the termination benefits.

There are pension obligations of EUR 47,355 thousand for former members of the Managing Board and their surviving dependents (2015: EUR 26,525 thousand). The corresponding plan assets in the form of employer's liability insurance amount to EUR 34,459 thousand (2015: EUR 17,982 thousand).

Compensation of the Supervisory Board

The Supervisory Board received compensation for its activities in 2015 amounting to EUR 2,015 thousand. For fiscal year 2016, total compensation is expected to come to EUR 1,540 thousand. This figure includes a variable component of EUR 785 thousand (2015: EUR 1,332 thousand), which is calculated on the basis of the expected earnings per share in the consolidated financial statements.

Other related party disclosures
In total, the members of the Managing Board and Supervisory Board hold less than 1% (2015: less than 1%) of the shares issued by HUGO BOSS AG.

Members of the Managing Board and Supervisory Board purchase HUGO BOSS products as part of the compensation in kind granted to them supplementary to their salary and for their personal use. Besides this, no significant transactions were concluded between companies of the HUGO BOSS Group and key management personnel and their close family members.

27| SUBSEQUENT EVENTS

Between the end of fiscal year 2016 and the release for publication of this report on March 7, 2017 there were no notable macroeconomic, socio-political, industry-related or company-specific changes which could have a material impact on the Company's results of operations, net assets and financial position according to the expectations of management.

28| GERMAN CORPORATE GOVERNANCE CODE

In December 2016, the Managing Board and Supervisory Board of HUGO BOSS AG issued the declaration of compliance prescribed by Sec. 161 AktG. It is available for shareholders on the Company's website.

29| GROUP AUDITOR FEES

(in EUR thousand)

	2016	2015
Audit services	1,873	1,830
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	485	481
Other assurance services	177	143
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	114	50
Tax advisory services	480	674
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	92	433
Other services	5	69
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	1	59
TOTAL	**2,535**	**2,716**

MANAGING BOARD

MARK LANGER (from January 15, 2010 Member of the Managing Board, from May 19, 2016 Chairman of the Managing Board) Stuttgart, Germany	Chairman of the Managing Board Responsible for Corporate Strategy and Communication, Controlling, Finance, Internal Audit, Central Services, IT, Legal/Compliance, Human Ressources, Global Sourcing and Production, Supply Chain Management
CLAUS-DIETRICH LAHRS (till February 29, 2016) Stuttgart, Germany	Chairman of the Managing Board Responsible for Sales, Own Retail, Communications, Licenses
BERND HAKE (from March 1, 2016) Eningen, Germany	Responsible for Own Retail, Wholesale, Global Merchandising
INGO WILTS (from August 15, 2016) Amsterdam, Netherlands	Responsible for Creative Management, Brand Management, License Management, PR Fashion, Global Advertising
CHRISTOPH AUHAGEN (till April 22, 2016) Stuttgart, Germany	Responsible for Creative Management, Brand Management, Sourcing and Production

SUPERVISORY BOARD

MICHEL PERRAUDIN Hergiswil, Switzerland	Management Consultant Chairman of the Supervisory Board
ANTONIO SIMINA Metzingen, Germany	Tailor/Chairman of the Works Council HUGO BOSS AG, Metzingen, Germany Deputy Chairman of the Supervisory Board Employee representative
TANJA SILVANA GRZESCH Sonnenbuehl, Germany	Chairperson and Treasurer of the German Metalworkers´ Union (IG Metall) Reutlingen-Tuebingen, Reutlingen, Germany Employee representative
ANITA KESSEL Metzingen, Germany	Administrative Employee HUGO BOSS AG, Metzingen, Germany Employee representative
KIRSTEN KISTERMANN-CHRISTOPHE Oberursel, Germany	Managing Director Société Générale S.A., Frankfurt/Main, Germany
FRIDOLIN KLUMPP Caslano, Switzerland	Senior Vice President Global Human Resources HUGO BOSS AG, Metzingen, Germany Employee representative
GAETANO MARZOTTO Milan, Italy	Chairman of the Supervisory Board Gruppo Santa Margherita S.p.A., Fossalta di Portogruaro, Italy
LUCA MARZOTTO Venice, Italy	Chief Executive Officer Zignago Holding S.p.A., Fossalta di Portogruaro, Italy
SINAN PISKIN Metzingen, Germany	Administrative Employee HUGO BOSS AG, Metzingen, Germany Employee representative
AXEL SALZMANN Großhansdorf, Germany	Chief Financial Officer Bilfinger SE, (till September 30, 2016), Mannheim, Germany Kite Holding Germany GmbH, (from October 1, 2016) Duesseldorf, Germany
MARTIN SAMBETH (from August 1, 2016) Tiefenbronn, Germany	Secretary of the German Metalworkers' Union IG Metall Area Headquaters Baden-Wuerttemberg, Stuttgart, Germany Employee representative
MONIKA LERSMACHER (till July 31, 2016) Kornwestheim, Germany	Secretary of the German Metalworkers' Union IG Metall Area Headquaters Baden-Wuerttemberg, Stuttgart, Germany Employee representative
HERMANN WALDEMER Blitzingen, Switzerland	Consultant

ADDITIONAL DISCLOSURES ON THE MEMBERS OF THE SUPERVISORY BOARD AND THE MANAGING BOARD

The members of HUGO BOSS' Supervisory Board are also members of an executive body at the following companies:[1]

Michel Perraudin	ODLO Sports Holding AG[2]	Huenenberg, Switzerland
Kirsten Kistermann-Christophe	GSW Immobilien AG	Berlin, Germany
Monika Lersmacher (till July 31, 2016)	Berthold Leibinger GmbH	Ditzingen, Germany
Hermann Waldemer	FCA US LLC (till June 30, 2016)	Auburn Hills, MI, United States
Gaetano Marzotto	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Santa Margherita S.p.A.[2]	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Alpitour S.p.A.	Turin, Italy
	Clouditaly Telecommunicazioni S.p.A.	Rome, Italy
	GGDB Holding S.p.A.	Milan, Italy
	Tipo S.p.	Milan, Italy
Luca Marzotto	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Santa Margherita S.p.A.[2]	Fossalta di Portogruaro, Italy
	Centervue S.p.A.	Padua, Italy
	Cà del Bosco Srl - Società Agricola	Erbusco, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Golden Goose S.p.A.	Milan, Italy
	GGDB Holding S.p.A.	Milan, Italy
	Telecom Italia S.p.A.	Milan, Italy
	Lumar Srl	Vicenza, Italy
Martin Sambeth (from August 1, 2016)	Schuler Pressen GmbH (till August 31, 2016)	Goeppingen, Germany
	Schuler AG (till September 30, 2016)	Goeppingen, Germany

[1] The members not named have no seats on executive or advisory bodies at other companies.
[2] Member holds position of Chairman.

The Managing Board is also member of an executive body at the following company:[1]

Claus-Dietrich Lahrs (till February 29, 2016)	Ravensburger AG	Ravensburg, Germany

[1] The members not named have no seats on executive or advisory bodies at other companies.

PUBLICATION

The annual and consolidated financial statements of HUGO BOSS AG are published in the German Federal Gazette and on the website of HUGO BOSS.

Metzingen, March 7, 2017

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Ingo Wilts

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report, which is combined with the management report of HUGO BOSS AG, includes a fair review of the development and performance of the business and the position of the HUGO BOSS Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Metzingen, March 7, 2017

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Ingo Wilts

AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the group management report, which has been combined with the management report of the Company:

"We have audited the consolidated financial statements prepared by HUGO BOSS AG, Metzingen, comprising the income statement, the statement of comprehensive income, the statement of financial position, the consolidated statement of changes in equity, the statement of cash flows as well as the notes to the consolidated financial statements together with the group management report, which has been combined with the management report of the Company, for the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 31 5a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU as well as the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Stuttgart, March 7, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Matischiok
Wirtschaftsprüfer
[German Public Auditor]

Biller
Wirtschaftsprüferin
[German Public Auditor]

CHAPTER
5

Additional Information

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ADDITIONAL INFORMATION

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GENERAL INFORMATION

Our Company's performance is best reflected in the consolidated financial statements. Like many other organizations,we have refrained from including the figures from the separate financial statements of the parent company HUGO BOSS AG in this report for the sake of clarity of presentation. To receive a copy of these statements, which continue to be prepared in accordance with the German Commercial Code (HGB), please contact:

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that reflect management's current views with respect to future events. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should," and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties. If any of these or other risks or uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement, which speaks only as of the date on which it is made.

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FINANCIAL CALENDAR 2017

9.

MARCH

Press and Analysts‘ Conference

3.

MAY

Publication of the First Quarter Results 2017

23.

MAY

Annual Shareholders‘ Meeting

2.

AUGUST

Publication of the First Half Year Report 2017

2.

NOVEMBER

Publication of the Nine Months Results 2017