CHAPTER
2

Combined Management Report

35 – 68

Group Profile

COMBINED MANAGEMENT REPORT
GROUP PROFILE

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)

2016 (2015)

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**

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

As a growth-oriented company, HUGO BOSS attaches particular importance to profitably increasing its sales. All activities to raise sales are gauged by their potential to generate an increase in adjusted EBITDA and the adjusted EBITDA margin (ratio of earnings to sales) before special items in the long term. EBITDA was 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.

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

Managing efficient use of capital through trade net working capital

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

02|06 DEFINITION TRADE NET WORKING CAPITAL

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

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

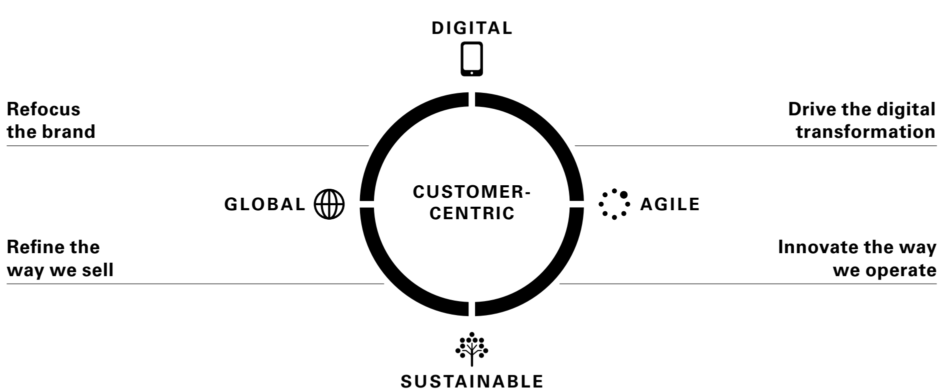
Further development of the strategy aims at a return to sustainable and profitable growth

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

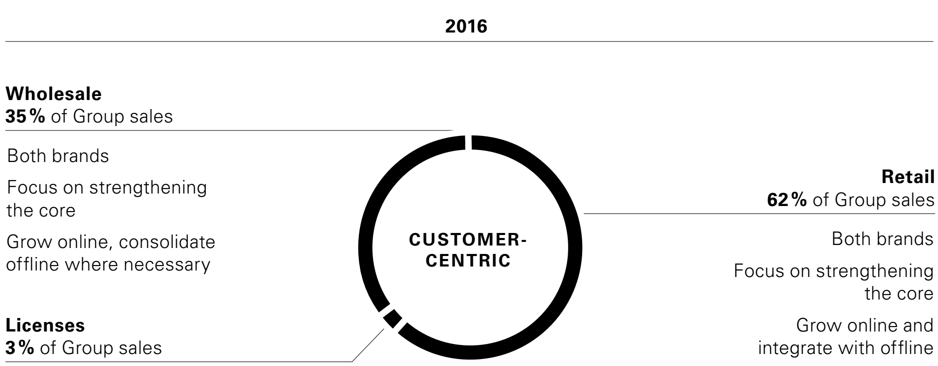
Womenswear, which accounted for 11 % of Group sales in 2016, remains an important part of the HUGO BOSS business. In terms of both fashion and price, the positioning of the two brands BOSS and HUGO in the womenswear market corresponds to that of menswear. In future the womenswear collections will reflect 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

Enable the cultural transformation

Set the foundations	Improve performance	Develop the model
Takeover of website frontend management	Rollout of omnichannel services	Digitization of existing business model
Insourcing of European online fulfillment	Commercial optimization of hugoboss.com and app	Addition of new business models
hugoboss.com and app (re)launches		
Omnichannel pilots		
2016 and before	2017	
	medium-term targets	long-term targets

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

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.

ACTIVE TRANSFORMATION OF THE CORPORATE CULTURE

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

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**

"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.

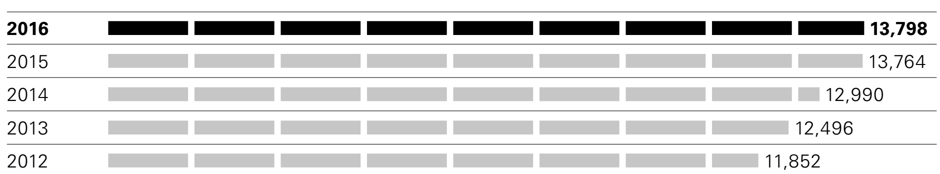
Personnel work supporting implementation of the corporate strategy

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

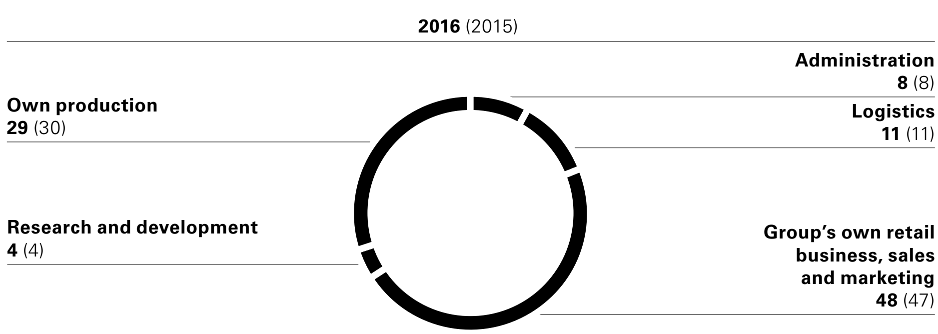
At the end of 2016, the HUGO BOSS Group employed 13,798 employees around the world (2015: 13,764). This was an increase of 34 on the previous year.

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.

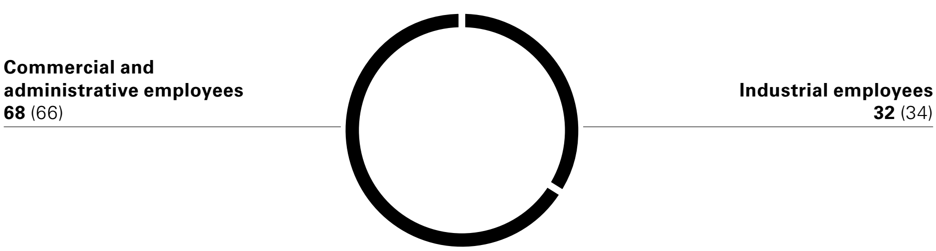
02|12 EMPLOYEES BY FUNCTIONAL AREA AS OF DECEMBER 31 (in %)



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 %)

2016 (2015)

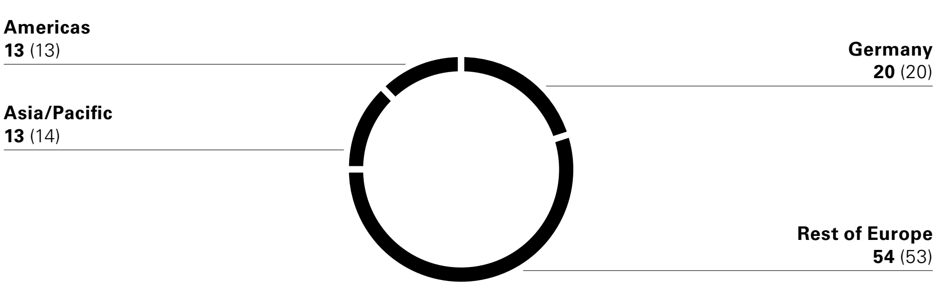


Regional distribution of employees reflects global orientation

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 %)

2016 (2015)



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

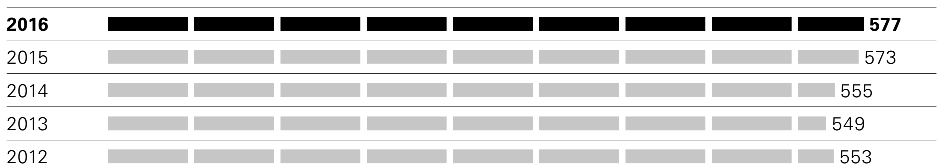
A technology lab was set up in Izmir to create a platform for innovative ideas. It comprises 16 people from various occupational groups. On the basis of existing processes, optimizations are tested and the standardization of production is further accelerated. For instance, a shirt cuff has been produced 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**

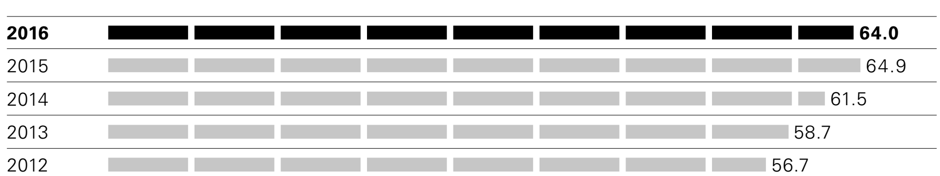
02|17 NUMBER OF EMPLOYEES IN R&D AS OF DECEMBER 31



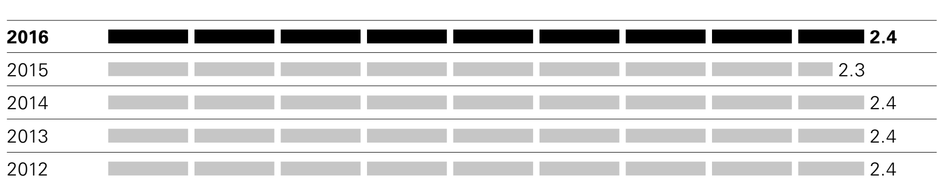
Research and development expenses at prior-year level

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.

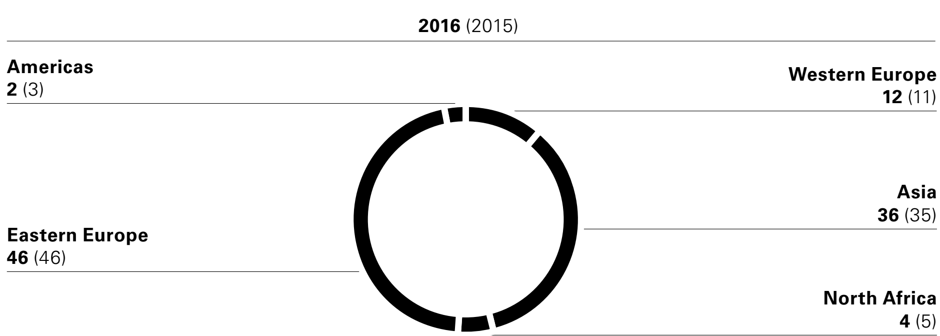
Merchandise primarily focuses on the sourcing of jeans, T-shirts and polo shirts. With this kind of sourcing, the suppliers are provided with the patterns. However, they independently source their own fabrics and additional items. Most of the suppliers for this kind of manufacturing are based in Asia,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

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%.

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.

Currency-adjusted decline in wholesale channel sales

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.

License business up 12 %

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)**

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.

HUGO and BOSS Green with high double-digit sales growth

SALES BY MENSWEAR AND WOMENSWEAR

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

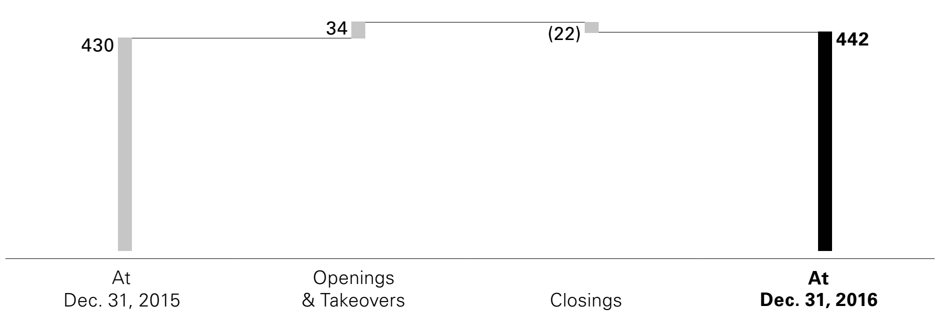
	2016	**In % of sales**	2015	In % of sales	Change in %	Currency-adjusted change in %
Menswear	2,393.6	89	2,501.0	89	(4)	(2)
Womenswear	299.2	11	307.7	11	(3)	(1)
TOTAL	**2,692.8**	**100**	**2,808.7**	**100**	**(4)**	**(2)**

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)

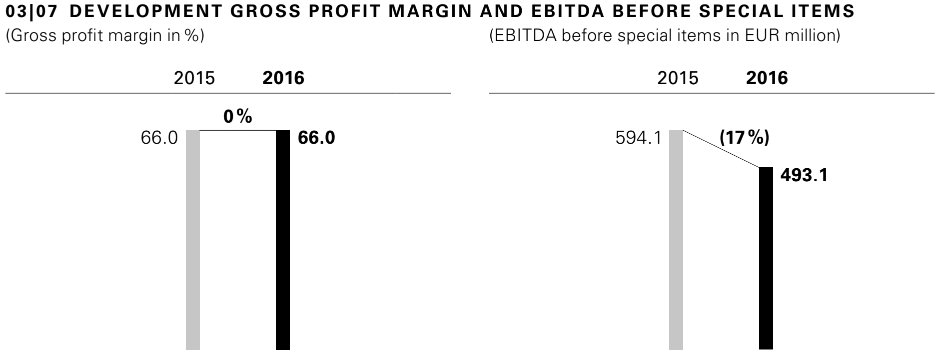
	2016	**In % of sales**	2015	In % of sales	Change in %
Sales	**2,692.8**	**100.0**	**2,808.7**	**100.0**	**(4)**
Cost of sales	(915.3)	(34.0)	(955.9)	(34.0)	4
Gross profit	**1,777.5**	**66.0**	**1,852.8**	**66.0**	**(4)**
Selling and distribution expenses	(1,175.5)	(43.6)	(1,136.6)	(40.5)	(3)
Administration 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



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**

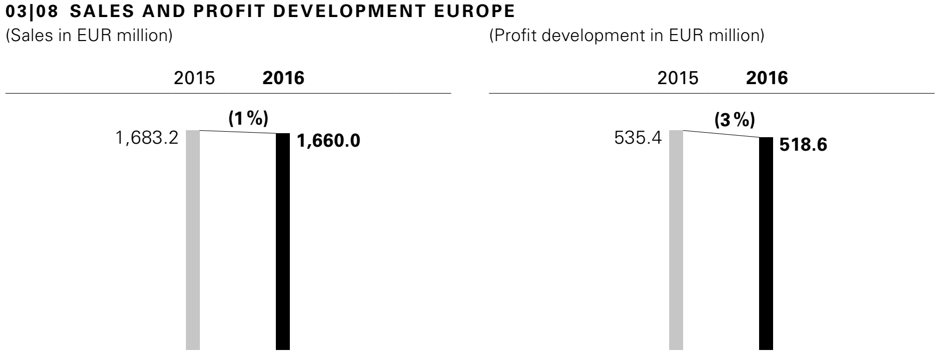
Group's income tax rate stable

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



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.

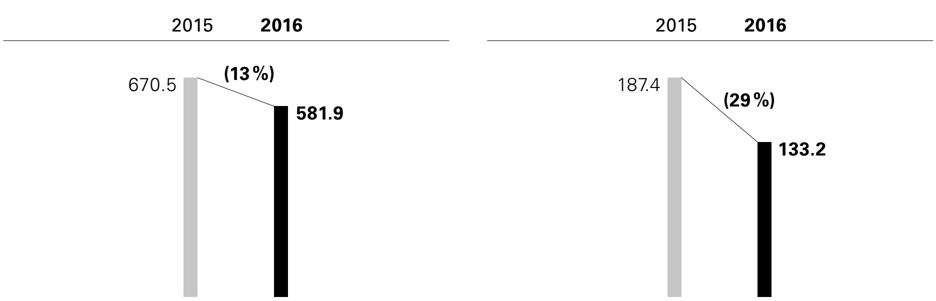
Segment profit slightly down on prior year

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 EUR million) (Profit development in EUR million)



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

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.

Lower sales in the United States

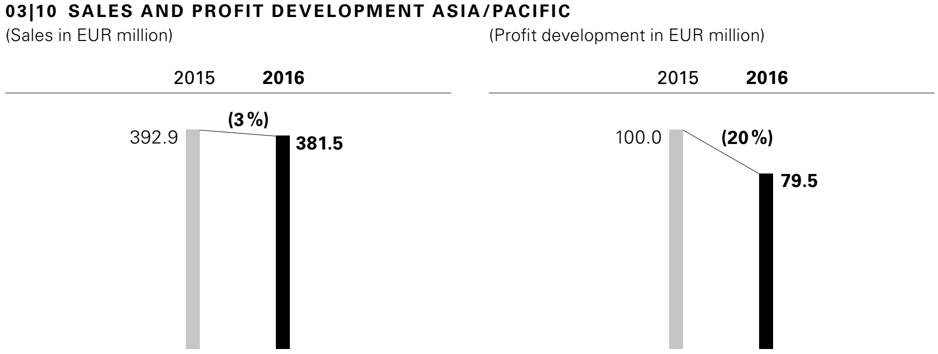
In the **United States** sales in the reporting currency decreased in the Group's reporting currency and the local currency by 17 % and totaled EUR 440 million at the end of the twelve-month period (2015: EUR 530 million). This decline was driven by declining sales in the Group's retail business and 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.

Segment profit burdened by sales development 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 %).

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

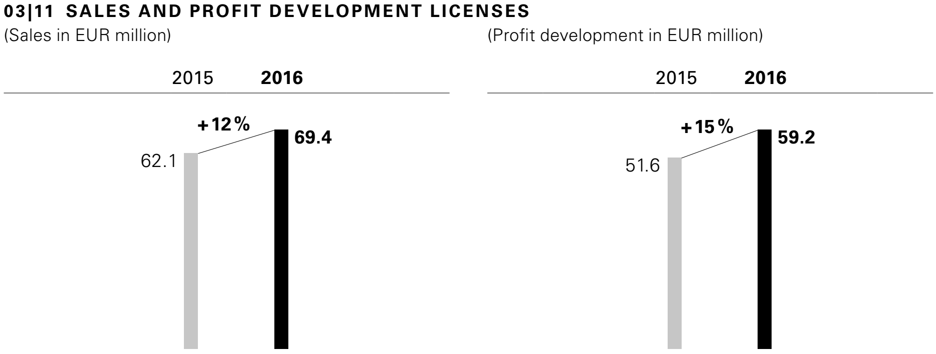
At EUR 211 million, sales in **China** were down 9 % on the prior year (2015: EUR 232 million). This translates into a currency-adjusted decline of 6 %. Business in mainland China was substantially stronger than in Hong Kong and Macau. These latter two markets are also considered to be China. At EUR 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



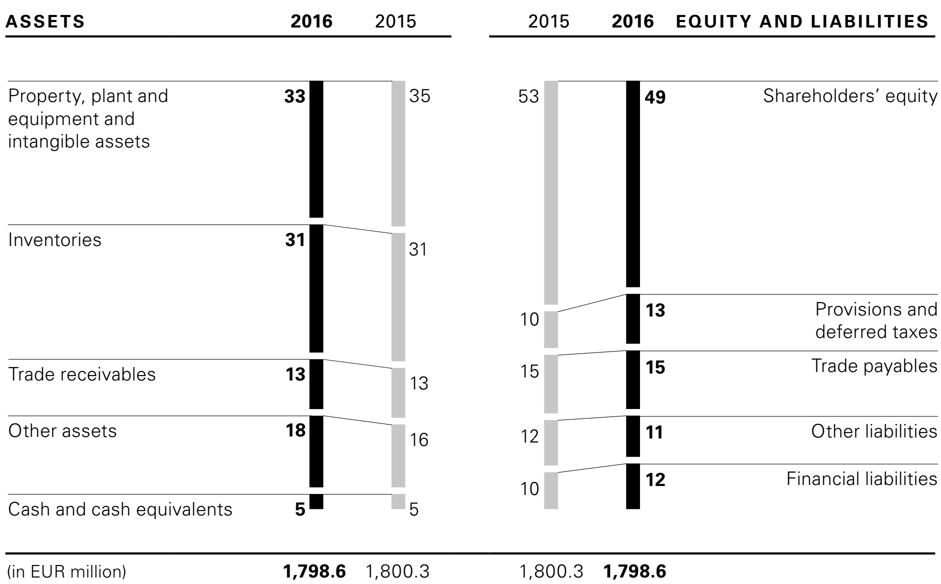
License business performed well in fiscal year 2016. → **Group Earnings Development, sales by distribution channel**

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

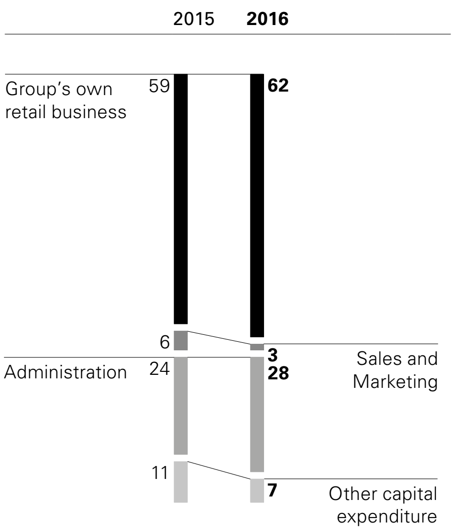
The **net financial liabilities** are the total of all financial liabilities due to banks less cash and cash equivalents. Liabilities from finance leases are not included in the calculation of this indicator. The net financial liabilities increased as of the end of the fiscal year 2016 to EUR 113 million (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

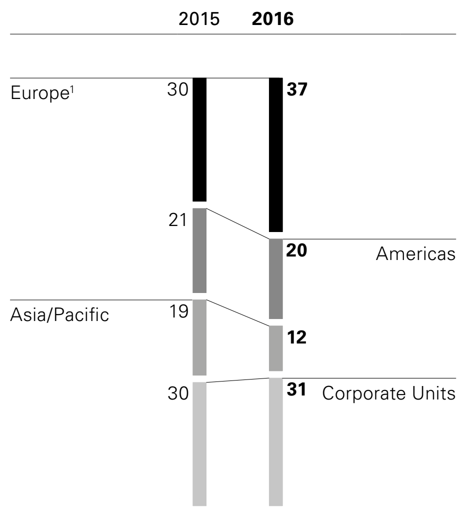
Lower investments in the fiscal year 2016

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

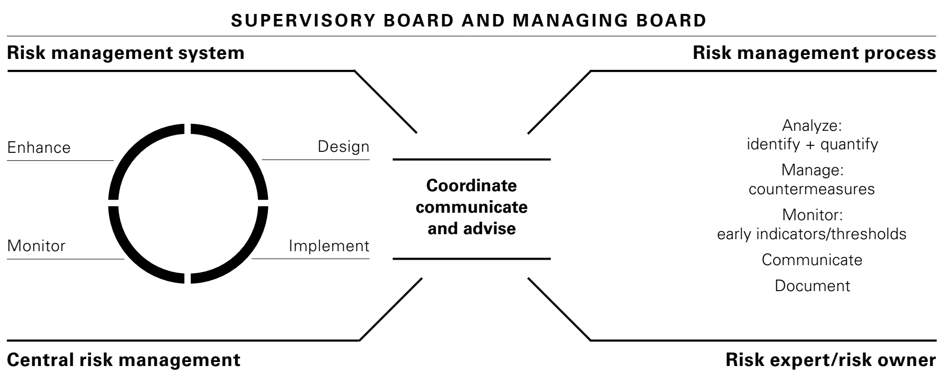
Successful risk management is founded on Group-wide standards for systematically handling risks. These are set for the HUGO BOSS Group by the Managing Board as part of the risk policy and documented in a risk manual that is applicable throughout the Group and is available for all employees online. Risks 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)

Exposure / Likelihood (within 1 year)	unlikely	possible	likely	very likely
high	**Risk 6**	**Risk 15, 18**		
essential	**Risk 4, 20**	**Risk 1, 2, 13, 16**		
moderate	**Risk 17, 19**	**Risk 7, 8**		**Risk 11**
low	**Risk 3, 5, 9, 10, 21, 23, 24**	**Risk 22**	**Risk 12, 14**	

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