COMBINED MANAGEMENT REPORT
GROUP PROFILE

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BUSINESS ACTIVITIES AND GROUP STRUCTURE

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

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

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

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

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

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

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

The HUGO BOSS Group has aligned its structure regionally and bundled its local business activities into three regional organizational units: Europe including the Middle East and Africa; the Americas; and Asia/Pacific. These three regions together with the Royalties business make up the Group’s four operating segments. Responsibility for the central functions is allocated to the individual members of the Managing Board, and bundled at the Group’s headquarters.
In close consultation with the Managing Board, the three regional organizational units, under the leadership of their respective regional directors, secure implementation of the Group’s strategy in each market environment. The directors are charged with securing cooperation with those responsible at country-level within their respective regions, particularly as regards the regional adaptation of the distribution strategy in the wholesale and retail business as well as the development of sales and earnings. This regional emphasis of distribution structures brings the Group closer to customers, improves responsiveness to market trends and eases adaptation to market characteristics. Moreover, it enables the fast exchange of knowledge through the close integration of local companies.
02|03 KEY LOCATIONS/GLOBAL MARKET PRESENCE

AMERICAS

<table>
<thead>
<tr>
<th>Points of sale</th>
<th>1,550</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own retail stores</td>
<td>200</td>
</tr>
<tr>
<td>Showrooms</td>
<td>2</td>
</tr>
</tbody>
</table>
Germany, Metzingen and surrounding areas
- Headquarters Group and Europe, development and pattern design, production, warehouse

Poland, Radom
- Production

Switzerland, Coldrerio
- Development and pattern design

Turkey, Izmir
- Production

Italy, Morrovalle and Scandicci
- Development and pattern design, production

Hong Kong
- Headquarters Asia/Pacific

**EUROPE** (including Middle East and Africa)
- Points of sale: ~5,100
- Own retail stores: 576
- Showrooms: 17

**ASIA/PACIFIC**
- Points of sale: ~450
- Own retail stores: 234
- Showrooms: 2
GROUP MANAGEMENT

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

GROUP MANAGEMENT ALIGNED TO PROFITABLE GROWTH

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

KEY PERFORMANCE INDICATORS

To increase the enterprise value, the Group focuses on maximizing free cash flow. Maintaining positive free cash flow in the long term secures the Group’s financial independence and its solvency at all times. Increasing sales and operating income, defined as EBITDA (earnings before interest, taxes, depreciation) before special items constitute the main levers for improving free cash flow. Strict management of trade net working capital and value-oriented investment activities also support the development of free cash flow.
**02|05 Definition Free Cash Flow**

Cash flow from operating activities

+ Cash flow from investing activities

= Free Cash Flow

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 EBITDA and the EBITDA margin (ratio of earnings to sales) before special items in the long term. EBITDA was chosen as the most important performance indicator as it is a key driver of free cash flow. Productivity increases in the Group’s own retail business are seen as the main lever for increasing the EBITDA margin. In addition, the company enhances the efficiency of its sourcing and production activities and optimizes its operating expenses to ensure that they do not outpace sales growth.

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

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

**02|06 Definition Trade Net Working Capital**

<table>
<thead>
<tr>
<th>Inventories</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Trade receivables</td>
</tr>
<tr>
<td>− Trade payables</td>
</tr>
<tr>
<td>= Trade Net Working Capital</td>
</tr>
</tbody>
</table>

Management of inventories as well as trade receivables and trade payables is charged to the central operating functions and distribution units. These three components are managed using the indicators days inventories outstanding, days sales outstanding and days payables outstanding, which are partially factored into the variable remuneration of management of the central functions and distribution units. Furthermore, the ratio of trade net working capital to sales is set as one of the Managing Board’s targets and is reported as part of the planning process and monthly reporting.
The potential value added of proposed investment projects is assessed taking into account the relevant cost of capital. Expanding the Group’s own retail business is currently the focus of the Group’s investment activity. With this in mind, an approval process was established specifically for projects in this area. Apart from a qualitative analysis of potential locations, this also includes an analysis of each project’s present value.

### 02|07 Development of Key Performance Indicators (in EUR million)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>2,432.1</td>
<td>2,345.9</td>
<td>4</td>
</tr>
<tr>
<td>EBITDA before special items</td>
<td>564.7</td>
<td>528.1</td>
<td>7</td>
</tr>
<tr>
<td>Trade net working capital</td>
<td>431.8</td>
<td>408.5</td>
<td>6</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>185.3</td>
<td>165.8</td>
<td>12</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>230.0</td>
<td>220.6</td>
<td>4</td>
</tr>
</tbody>
</table>

### Three core elements of the Group’s internal management system

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

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

### Regular update of Group planning

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

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

Annual planning is updated at regular intervals to factor in the actual development of business and the existing opportunities and risks in order to allow a forecast of the consolidated earnings that can be expected in the current year. Based on the expected development of cash flow, the Group’s Treasury department prepares a monthly liquidity forecast. This permits early recognition of financial risks and the adoption of measures concerning financing and investment requirements. In addition, liquidity planning differentiated by currency is used, among other things, as a basis for currency hedging. 🔄 Report on Risks and Opportunities, Financial Risks
The Managing Board and management of Group companies are informed about the development of business operations through standardized, IT-enabled reports of varying granularity. This reporting system is supplemented by ad hoc analyses as necessary. Actual data compiled by the Group-wide reporting system are compared against budget data each month. Deviations from target are explained and planned countermeasures presented. Developments with a material impact on the Group’s earnings have to be immediately reported to the Managing Board. In addition, particular attention is paid to the analysis of early indicators deemed suitable for obtaining an indication of the future development of business. In this context, order intake, the performance of the replenishment business and retail comp store sales are analyzed at least on a weekly basis. In addition, benchmarking against relevant competitors is performed at regular intervals.

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

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

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

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

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

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

The Company sees great growth opportunities in the expansion of its luxury offering, which complements the strong positioning it has obtained over the years in the premium segment. With this in mind, HUGO BOSS has simplified its brand presentation by combining the BOSS Black and BOSS Selection brands under the BOSS core brand. This integration was implemented for the first time in the 2013 fall collection. The resulting impetus to the market position of BOSS, particularly in the luxury segment through the extension of the Made to Measure range of suits and shirts, for instance, accents the Company’s competence in high-quality tailoring and has a direct positive impact on the perception of the premium offering.
With its progressive style and avant-garde design, the HUGO brand boasts a strong market position among keenly fashion-conscious consumers. HUGO clearly stands out from the competition with its minimalist designs and puristic looks. Apart from its commercial importance, HUGO plays a key role as the fashion spearhead that sharpens perception of HUGO BOSS overall. The Group sees substantial growth potential, particularly in markets such as the United States and Asia, where the market penetration of HUGO is still relatively low.

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

HUGO BOSS is expanding its communication activities to reinforce the perception of its brands. This is consistent with the Group’s efforts to sharpen its focus on end consumers as part of the expansion of its own retail business. The aim is to uniformly disseminate the brand message across all communication channels in a bid to strengthen perception of the brand, activate existing consumers and attract new customer groups to HUGO BOSS. Special emphasis is being placed on the greater use of print campaigns to support the womenswear line, the expansion of point-of-sale marketing in connection with the larger flagship store portfolio and the broadening of the Group’s online media activities. Targeted fashion shows aim to further increase the visibility of the brands among end consumers.
The BOSS core brand epitomizes authentic, understated luxury. The men’s collection offers modern, refined business- and eveningwear along with sophisticated casual looks and premium sportswear for after work. The unique fits, high-quality materials and exquisite styles help to bring out a man’s personality – and give him the confidence that he is perfectly dressed for every occasion. Shoes and accessories round out the range, supplemented by watches, eyewear and fragrances produced under license.
The women’s collection of the BOSS core brand stands for feminine styles with a strong focus on precision workmanship, fine fabrics and detailing. The rich array of modern businesswear, exclusive leisurewear and glamorous evening apparel fuses fashionable silhouettes with excellent design and timeless elegance. Coordinated shoes and accessories complete the looks, which are enhanced by licensed watches, eyewear and fragrances.
BOSS Kidswear offers a premium range of quality leisure- and sportswear featuring smart details, along with dressy outfits for more formal occasions. The versatile collections for newborns, children and young adults are produced under license and complemented by matched accessories.
BOSS Green is the active sportswear line from HUGO BOSS that transcends the boundary between modern leisure outfits and performance golf apparel. Linking fashion, lifestyle and function, the collection delivers distinctive, dynamic looks in impactful colors.
As the urban casualwear collection from HUGO BOSS, BOSS Orange sends an easy-going message. The laid-back lifestyle fashions appeal to men and women who set stock in individuality and cultivate mobility and spontaneity as parts of their personal mindset. Shoes and accessories join licensed watches, eyewear and fragrances to perfect the uncomplicated, modern look.
HUGO is the fashion spearhead within the HUGO BOSS brand world. Offering contemporary design trends for both business and leisure, the brand stands for progressive looks and an edgy, urban attitude. The women’s and men’s collections consistently set self-confident, stylish accents; shoes, accessories and licensed fragrances round out the ranges.
GROWING THE GROUP’S OWN RETAIL BUSINESS

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

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

| 02|10 SALES BY DISTRIBUTION CHANNEL (in %) |
|-------------------------------|---|---|---|---|---|
|                              | 2009 | 2010 | 2011 | 2012 | 2013 |
| Wholesale                    | 64   | 57   | 53   | 49   | 44   |
| Own retail                   | 33   | 40   | 45   | 49   | 54   |
| Royalties                    | 3    | 3    | 2    | 2    | 2    |
Over the past few years, HUGO BOSS has trimmed and increased the flexibility of critical business processes to enable it to respond faster to market developments and the changing needs of its customers. Drawing on the experience gained in the interim, the measures taken and, in turn, the Company’s retail competences are being optimized further. Initiatives to emphasize the spring and fall collections as part of the four-collection cycle cater specifically to the needs of the American and Asian markets. Earlier deliveries also help improve the availability of new collections at the start of the season and, in turn, the full-price sell-through rate. In addition, brand and creative management are to receive support in the development of the next collection through better analyses of the results of the reference season. Finally, follow-up measures were taken to couple up production and sourcing activities more closely to actual demand.

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

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

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

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

![02|11 SALES BY REGION (in %)]

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>67</td>
<td>62</td>
<td>61</td>
<td>59</td>
<td>60</td>
</tr>
<tr>
<td>Americas</td>
<td>20</td>
<td></td>
<td>22</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>10</td>
<td>13</td>
<td>15</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Royalties</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

1 Including Middle East and Africa.

However, Europe will remain the Group’s largest sales market. In addition, the Group is supplementing its established presence at wholesale partners by growing its network of own stores. It is thereby strengthening the homogeneity and value of the global brand image and is raising the appeal both for local consumers and the growing number of non-European customers who visit the region as tourists. Motivated by these considerations and in response to the challenging business situation faced by many of its business partners, HUGO BOSS has also increasingly begun to directly operate wholesale spaces itself. This has allowed the Group to generate growth that outstrips the average sector growth in many markets. Apart from expanding its market positioning in traditional mainstay markets like Germany, Great Britain, France and the Benelux countries, the Company feels that there are attractive growth opportunities in Eastern Europe, especially in Russia. Building on the direct market entry in fiscal year 2013, the Company will to a larger extent control its distribution in this market itself in future.
HUGO BOSS enjoys a sturdy market positioning in the Americas. It is primarily anchored in a favorable perception shaped by associations with the European lifestyle. Apart from modern design, HUGO BOSS is attributed a high degree of reliability with respect to fit and quality as well as an attractive value proposition. HUGO BOSS wants to increasingly take advantage of these strengths, also as regards parts of its portfolio that have had a less profiled presence until now, such as the HUGO brand or the womenswear line. The latter should benefit in particular from the huge reputation that the new Artistic Director, Jason Wu, has in the region. In the wholesale business, the Group is concentrating on partnering with retailers in prime market segments. Optimization of brand presentation, both in the category business but also increasingly in shop-in-shop formats, partly also under the Group’s control, serve as key growth levers in this context. In the retail business, the focus is on selected new openings, particularly in Latin America, as well as in enhancing the shopping experience.

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

**IMPROVING OPERATIONAL PROCESSES**

The fundamental principle observed by the Group is to keep control over all business-critical processes. Robust operational processes allow the Company to develop, source, produce and deliver high-quality products in large numbers efficiently, fast and on an industrial scale. This affords HUGO BOSS the opportunity to gain a competitive edge by swift reaction to market changes, an advantageous value-for-money proposition and high supply reliability. The Group still focuses on optimizing operational processes in line with the requirements of its own retail operations.
HUGO BOSS has closely integrated the product design and development process with industrial manufacturing and sourcing. The organizational structure is aligned to the categories clothing, sportswear, womenswear as well as shoes and accessories in order to maximize the respective product competencies. Intensive cooperation of all those responsible for product development increases product quality, accelerates development times and captures synergy effects in development and sourcing.

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

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

A powerful logistics infrastructure ensures timely and accurate delivery to sales partners and the Group’s own points of sale. In the past few years, the Group has redoubled its efforts to optimize its logistics processes with respect to the requirements of its own retail business in line with the transformation of its business model. The single most important measure in this context is the construction of a new flat-packed goods distribution center near the Group’s headquarters. Once it goes into operation in the first half of 2014, it will speed up the merchandise supply process and significantly improve the efficiency of critical handling processes compared to the past.
The work of the almost 12,500 people employed by the HUGO BOSS Group worldwide is the basis of the Company’s success. The skills of the employees and their passion for fashion find their expression in unmistakable products. The central aim of personnel work in the HUGO BOSS Group is fostering the team spirit and motivation of employees in an international environment, while creating a culture of openness and creativity that allows each and every individual to realize their full potential. HUGO BOSS’ corporate values of quality, passion, respect, cooperation and innovation provide the cornerstones.

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

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

The number of employees in the HUGO BOSS Group increased further in 2013. At the end of fiscal year 2013, HUGO BOSS had 12,496 employees. This is an increase of 644 or 5% compared to the prior year (2012: 11,852 employees).
The rise is attributable to the positive development of business and the associated increase in demand for staff, particularly in the Group’s own retail business. In the Group’s own retail business alone, the workforce grew last year by 15% from 4,139 to 4,759 employees. The majority of new employees in this segment were hired in Europe and the Americas, where the expansion of the Group’s own retail business was driven forward, partly through the takeover of shop-in-shop units from wholesale partners.  ➤ Group Strategy

As a consequence, the share of employees in commercial positions increased further. At year-end 2013, 8,262 employees or 66% of the workforce (2012: 7,549) were assigned to commercial and administrative positions and 4,234 employees or 34% of the total workforce (2012: 4,303) to industrial activities.  ➤ Notes to the Consolidated Financial Statements, note 10
Internationality, openness and diversity shape the corporate culture at HUGO BOSS. This is reflected in the regional distribution of the workforce. 80% of the Group’s people work outside Germany (2012: 80%).

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

<table>
<thead>
<tr>
<th>Employees</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial and administrative employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>66 (64)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial employees</td>
<td>34 (36)</td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td>15 (15)</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>20 (20)</td>
<td></td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>14 (14)</td>
<td></td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>51 (51)</td>
<td></td>
</tr>
<tr>
<td>Proportion of men in total workforce</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Proportion of women in total workforce</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Proportion of men in management</td>
<td>54</td>
<td>54</td>
</tr>
<tr>
<td>Proportion of women in management</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Average age in years</td>
<td>34</td>
<td>34</td>
</tr>
</tbody>
</table>
HUGO BOSS invests in the vocational training of young people in order to secure its need for professionals. The Company offers a broad spectrum of industrial/technical and commercial apprenticeships as well as combined degree and vocational training courses in collaboration with Baden-Württemberg Cooperative State University (DHBW). During the apprenticeship term, HUGO BOSS considers it very important that general and specialized training and development opportunities are provided, such as in the form of the international assignment of Cooperative State University students to a subsidiary abroad.

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

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

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

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

The success of personnel marketing activities and intern mentoring in the past year is reflected, amongst other things, in a further improvement in the Company’s position in various rankings of Germany’s most popular employers. In addition, HUGO BOSS again received the TOP Internship award in 2013. One of the initiatives that guarantee the high quality standard of the internship program is the organization of regular workshops for designated intern mentors from the various departments.
Since 2008, the Company has been a member of the “Erfolgsfaktor Familie” network, a nationwide network of companies committed to the provision of family-oriented HR policies, and offers a flexible family support model. This aims to ease the return to work after parental and maternity leave. Employees at the Group’s headquarters in Metzingen have places reserved at two child daycare centers and the option of obtaining financial support for alternative childcare arrangements. A total of 178 employees benefited from the family support program in 2013.

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

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

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

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

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

Apart from this, the personal development of individuals is supported on a case-by-case basis through transfers to other departments or functions both within the Group’s headquarters and to subsidiaries abroad, by expanding the area of competence or through promotion to management positions. The career path of every manager is systematically supported with advice and by continuously fostering personal, methodological, specialist and leadership-related competencies.
Supplementing the leadership career path, the concept of the specialist career path was introduced in 2013. This gives high-performing and talented employees the opportunity to build up their expertise over the clearly defined development stages of a specialist career path. A training program designed for specialists was introduced to equip employees on this career path with the expertise and methodological skills they need.

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

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

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

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

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

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

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

In the first step of the product development process, creative management defines the collection statement, plans the color, theme, shape and fabric concepts and sets the targeted price points. Insights from sell-through diagnostics of the reference season are factored into this process. In order to compile at an early stage information on current trends in colors and materials as well as new kinds of processing techniques, the design departments attend specialist trade shows several times a year. In their search for new ideas, the creative teams seek inspiration from a range of fields, including architecture, design and art, but also from new technologies and socioeconomic developments. For instance, the 2013 Womenswear
Fall Collection was inspired by the work of U.S. photographer Man Ray. Clear lines, playful prints and art deco details were used to fuse artistic luxury with the shapes of surrealism. In this first step in the product development process, the design teams draw to a limited extent on the expertise of external advisors such as trend scouts in order to identify fashion trends even earlier.

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

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

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

### 02|17 PRODUCT DEVELOPMENT PROCESS AT HUGO BOSS

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

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

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

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>549</td>
</tr>
<tr>
<td>2012</td>
<td>553</td>
</tr>
<tr>
<td>2011</td>
<td>492</td>
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<td>2010</td>
<td>445</td>
</tr>
<tr>
<td>2009</td>
<td>427</td>
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</table>
Research and development expenses largely comprise personnel expenses and other operating expenses. In 2013, as in the past several years, the majority of research and development expenses were expensed as incurred. In addition, some of the production-related development expenses are included proportionately in the costs of conversion of inventories. No research and development expenses were capitalized as internally generated intangible assets. Total expenditure across the Group in connection with the creation of collections increased by 4% in the past fiscal year to EUR 59 million (2012: EUR 57 million). At 69%, personnel expenses made up the majority of research and development expenses (2012: 70%). The ratio of research and development expenses to consolidated sales remained unchanged at 2% in the past fiscal year (2012: 2%).

| 02|19 R&D EXPENSES\(^1\)  | (in EUR million) |
|--------------------------|------------------|
| 2013                     | 58.7             |
| 2012                     | 56.7             |
| 2011                     | 46.7             |
| 2010                     | 41.7             |
| 2009                     | 38.8             |

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

| 02|20 R&D EXPENSES\(^1\)  | (in % of sales) |
|--------------------------|------------------|
| 2013                     | 2.4              |
| 2012                     | 2.4              |
| 2011                     | 2.3              |
| 2010                     | 2.4              |
| 2009                     | 2.5              |

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

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

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

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

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

Suppliers are selected based on clearly defined production-related specifications. The most important criterion is the ability to meet the high quality and finishing standards. Additional criteria factored into the selection process include supplier reliability, technical equipment and innovation power, financial robustness and the cost efficiency of each supplier. Strict adherence of production sites to the social standards contractually agreed upon is a non-negotiable precondition for the establishment of a business relationship.
Sourcing activities break down into the procurement of raw materials, contract manufacturing and purchased merchandise. The raw materials sourced are mainly fabrics but also include additional items such as lining, buttons, thread or zippers. The majority of raw materials processed in-house or under contract comes from Europe. Fabrics are preferably sourced from long-standing fabric suppliers in Italy.

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

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

The Group has a keen interest in maintaining long-term collaboration with its suppliers. Joint efforts to enhance manufacturing expertise are essential in order to ensure the excellent finishing quality for which HUGO BOSS products are renowned the world over. Precise synchronization between the production companies and the technical development departments within the HUGO BOSS Group is of fundamental importance in order to allow a quick response to market trends and minimize lead times. Production-related considerations are factored into the product development process at a very early stage for instance. Moreover, feedback from suppliers on the fabrics and patterns processed in the last collection is taken into account in new designs. ➔ Research and Development
In order to effectively counter cost increases in the sourcing processes, especially due to increased labor costs, continuous efficiency improvements are needed along the entire supply chain. A key lever to this end is ensuring a seasonally balanced utilization of supplier capacity and ordering large volumes where possible. In this context, the core range and the associated reduction of a collection's complexity play an important role. Indeed, the complexity of collections has been reduced by almost a third over the past few years. A 10% year-on-year reduction was possible in fiscal year 2013. In addition, the Group continually reassesses the regional optimization of its sourcing activities in light of diverging labor cost trends and changing industrial structures and manufacturing competencies in individual markets.

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

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

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

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

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

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

02|22 SUSTAINABLE ACTIVITIES

We act responsibly

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

The fields of action were specified as part of a materiality analysis. They define the central sustainability challenges for HUGO BOSS and, together with the reporting standard of the Global Reporting Initiative (GRI), form the basis for future reporting on sustainability achievements and objectives of the Group.
The Group aims to improve in all fields of action and has set itself ambitious goals in accordance with the priorities derived from the materiality analysis. As a means of measuring the Group’s progress and the degree of implementation of these objectives, HUGO BOSS is working towards inclusion in the Dow Jones Sustainability Index in the medium term.

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

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

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

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

Furthermore, the Group has taken measures to reduce the volume of CO2 emissions from logistics and distribution processes (Scope 3). Changes in global transport routes have already brought about a significant reduction in this context.
Similarly, the environmental compatibility of the packaging used was subject to critical analysis. As a consequence, the Company will switch over to using a type of environmentally friendly recycled paper (post-consumer recycled) for all paper carrier bags of the BOSS core brand in 2014, which means they meet the strictest ecological standards.

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

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

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

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

A wide range of training and further education possibilities provide support to employees and executives in their personal further development. With a wide range of sport and health offers and a program to improve the compatibility of career and family, HUGO BOSS supports its employees in achieving a healthy work-life balance. Employees.
Social compliance and environmental protection are the focal points of commitment to sustainability in the global supply chain of HUGO BOSS. Ensuring compliance with human rights and environmental standards especially in emerging markets is of central importance to the Company.

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

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

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

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

In order to have even more influence on compliance with good working and social conditions, the Group is striving towards having HUGO BOSS’ social standards introduced into the transparent and universally binding standard of a social compliance initiative and jointly working towards compliance with it in HUGO BOSS’ global supply chain. For this reason, HUGO BOSS is planning to sign up to such an initiative in the course of 2014.
As a leading international company in the premium and luxury segment of the apparel industry, it is a matter of course for HUGO BOSS to live up to its responsibility to consumers. For its collections, the Group uses exclusively materials that meet high quality standards and it ensures that HUGO BOSS products do not pose a health risk.

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

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

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

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

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

The framework for corporate social responsibility is likewise set by HUGO BOSS’ code of conduct. It prohibits donations to political parties and its representatives and to organizations such as trade unions, consumer rights groups and environmental protection groups, with which conflicts of interests might arise. Furthermore, the code provides for specific criteria for HUGO BOSS’ charitable donations.
In line with its vision of inspiring people to success, the Group has aligned its corporate social responsibility to helping disadvantaged children lead a better life particularly by granting them access to education. To this end, the Group works together with selected child welfare organizations. For example, UNICEF and HUGO BOSS have been partners for quite some time. For many years now, the Company has been successfully supporting the UNICEF initiative “Schools for Africa” and additionally provides aid in crises, when assistance is needed at short notice. This was the case, for example, in 2013 within the scope of an emergency relief action for the victims of the typhoon in the Philippines. At a national level, HUGO BOSS champions children and young people and since 2011 has supported the Off Road Kids foundation as a permanent sponsor. This is an organization providing relief to street children throughout Germany.

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