GROUP STRATEGY

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

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

Growth strategy based on four pillars
In order to sustainably increase sales and earnings, HUGO BOSS has identified four key growth areas for which strategic initiatives have been defined. The aim is to maximize brand attractiveness and to strengthen parts of the product range that have had a less profiled presence so far with appropriate product initiatives and a compelling brand communication. A strict customer-centric approach supports productivity gains in the Group’s own retail business, the expansion of which is being driven forward. Furthermore, the Group sees substantial growth potential worldwide that should lead to a more balanced regional sales structure in the long term. Finally, operational processes are to be strengthened further.
02|09 HUGO BOSS BRAND POSITIONING

Market segment

- luxury
- premium

Brand positioning

<table>
<thead>
<tr>
<th>casual chic</th>
<th>modern active</th>
<th>modern sophisticated</th>
<th>progressive contemporary</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOSS</td>
<td>BOSS</td>
<td>HUGO</td>
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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.
**HUGO is the fashion spearhead of HUGO BOSS**

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

**Womenwear as a key future growth driver**

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

**Expansion of brand communication**

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

**Business model aligned towards own retail business**

**Wholesale remains an important distribution channel**
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 %) |
|---|---|---|---|---|---|
| 2009 | 2010 | 2011 | 2012 | 2013 |
| Europe¹ | 67 | 62 | 61 | 59 | 60 |
| Americas | 20 | 22 | 22 | 24 | 24 |
| Asia/Pacific | 10 | 13 | 15 | 15 | 14 |
| Royalties | 3 | 3 | 2 | 2 | 2 |

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 businesswear 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.