HUGO BOSS AG (DISCLOSURES PURSUANT TO HGB)

By contrast to the consolidated financial statements, the annual financial statements of HUGO BOSS AG are not prepared in accordance with International Financial Reporting Standards (IFRS), but rather in accordance with the provisions of HGB [“Handelsgesetzbuch”: German Commercial Code].

BUSINESS ACTIVITY AND ECONOMIC ENVIRONMENT

As the parent company, HUGO BOSS AG is responsible for a number of functions within the HUGO BOSS Group. On the one hand, HUGO BOSS AG is responsible for all distribution channels in the German market and, through its permanent establishment, in the Austrian market. Responsibility for the collection theme and development for the main product groups across all brands is located in the Group’s headquarters in Metzingen. Other tasks bundled at the Group’s headquarters include management of the Group’s own retail business, procurement, logistics, IT, personnel management, financial management including company financing as well as risk management. In addition, HUGO BOSS AG is responsible for internal communication and, in particular, for external communication including investor relations.

As part of its overarching Group functions, the Group’s parent company, as represented by the members of the Managing Board, is responsible for the Group’s alignment and thus also for setting the corporate strategy.

The development of the results of operations of HUGO BOSS AG is influenced by the operating business as well as management of the central functions in particular. The allocation of costs for services rendered to Group companies together with the investment result resulting from the holding function of HUGO BOSS AG are the main line items in this context.

HUGO BOSS AG’s sales comprise external sales with wholesale partners and intercompany sales with foreign subsidiaries.
RESULTS OF OPERATIONS

CHANGE IN DISCLOSURE AND RESTATEMENT OF PRIOR-YEAR DISCLOSURES
Owing to the presentation changes made and the related restatement of the prior-year figures in accordance with Sec. 265 (2) Sentence 3 HGB, some of the figures presented deviate from the figures reported in prior years. Detailed information on this matter is presented in the separate financial statements of HUGO BOSS AG.

SALES DEVELOPMENT
In fiscal year 2013, sales of HUGO BOSS AG decreased by 2% to EUR 1,067 million (2012: EUR 1,093 million). This development is attributable to a decrease in sales with third parties as well as a reduction in the volume of sales with wholesale partners. This was only partially compensated for by the positive development of sales generated by subsidiaries in the Group’s own retail business.

<table>
<thead>
<tr>
<th>Region</th>
<th>2013 (%)</th>
<th>2012 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>77</td>
<td>75</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Americas</td>
<td>14</td>
<td>16</td>
</tr>
</tbody>
</table>

03|39 REGIONAL SALES PERFORMANCE (in %)

In Europe including the Middle East and Africa sales with subsidiaries of HUGO BOSS AG decreased by 3% to EUR 387 million in fiscal year 2013 (2012: EUR 400 million). By contrast, sales with third parties increased by 4% to a EUR 436 million in the same period (2012: EUR 420 million). Sales outside Germany and Austria were mainly generated with subsidiaries.

HUGO BOSS AG’s sales in the Americas decreased by 17% to EUR 145 million (2012: EUR 174 million). In Asia/Pacific, HUGO BOSS AG reported a 1% increase in sales to EUR 100 million (2012: EUR 99 million).

BOSS brand sales decreased by 3% to EUR 940 million (2012: EUR 974 million). By contrast, the HUGO brand generated an increase in sales of 7% to EUR 127 million in fiscal year 2013 (2012: EUR 120 million).
## Notes to the Income Statement

<table>
<thead>
<tr>
<th>03</th>
<th>40 Income Statement Hugo BOSS AG (in EUR million)</th>
<th>2013</th>
<th>In % of sales</th>
<th>2012</th>
<th>In % of sales</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1,067.3</td>
<td>100.0</td>
<td>1,093.4</td>
<td>100.0</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(653.9)</td>
<td>(61.3)</td>
<td>(681.8)</td>
<td>(62.4)</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>413.4</td>
<td>38.7</td>
<td>411.6</td>
<td>37.6</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Distribution Costs</td>
<td>(298.9)</td>
<td>(28.0)</td>
<td>(283.8)</td>
<td>(26.0)</td>
<td>(5)</td>
<td></td>
</tr>
<tr>
<td>General administrative expenses</td>
<td>(101.3)</td>
<td>(9.5)</td>
<td>(93.3)</td>
<td>(8.5)</td>
<td>(9)</td>
<td></td>
</tr>
<tr>
<td>Other operating income</td>
<td>131.8</td>
<td>12.3</td>
<td>126.3</td>
<td>11.6</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(59.1)</td>
<td>(5.5)</td>
<td>(61.7)</td>
<td>(5.6)</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>85.8</td>
<td>8.0</td>
<td>99.1</td>
<td>9.1</td>
<td>(13)</td>
<td></td>
</tr>
</tbody>
</table>

Income from investments in affiliated companies: 196.6 (18.4) 250.8 (22.9) (22)
Interest result: (10.6) (10.0) (13.3) (11.2) (20)
Income from ordinary activities: 271.8 (25.5) 336.6 (30.8) (19)
Taxes on income and other taxes: (61.1) (5.7) (48.3) (4.4) (27)
Net income: 210.8 (19.8) 288.2 (26.4) (27)
Transfer to (−)/from (+) other revenue reserves: 20.1 1.9 (72.6) (6.6) (128)
Accumulated income previous year: 4.3 0.4 4.0 0.4 8
Unappropriated income: 235.1 22.0 219.6 20.1 7

1Due to the adjustments made, certain amounts presented here do not correspond to the figures reported in the prior year.
Detailed information on this matter is presented in the financial statements of HUGO BOSS AG.

At EUR 413 million, the gross profit was up slightly on the prior-year level (2012: EUR 412 million). The gross profit margin hence increased from 37.6% in the prior year to 38.7%. Apart from the higher share in sales contributed by the Group’s own retail business compared to the prior year, this development reflected both the efficiency improvements in production and procurement activities as well as the positive effects from the improved inventories situation. Exchange rate effects had an adverse effect on gross profit.

Distribution costs increased by 5% to EUR 299 million in the fiscal year (2012: EUR 284 million). This development mainly relates to the expansion of the Group’s own retail business. Increased sales in this distribution channel led to increased expenses in connection with rental agreements linked to sales performance.

General administrative expenses increased by 9% to EUR 101 million (2012: EUR 93 million) and mainly comprised personnel expenses, rent for premises, lease expenses, amortization and depreciation as well as various IT costs. The increase relates to the higher amount of amortization charged on enterprise software in connection with the more capital-intensive nature of the business model.
**Other operating expenses** mainly comprise research and development costs, bad debt allowances and exchange rate effects and decreased by 4% year on year to EUR 59 million (2012: EUR 62 million). The decrease is largely due to the expenses included in the prior year relating to the stock appreciation rights (SAR) program.

In the past fiscal year, **other operating income** amounted to EUR 132 million (2012: EUR 126 million) and mainly breaks down into cost allocations and services rendered to affiliated companies.

Compared to the prior year, **operating profit** decreased from EUR 99 million to EUR 86 million, mainly due to increased distribution costs.

At EUR 197 million, **income from investments in affiliated companies** decreased compared to the prior-year level (2012: EUR 251 million). Income from investments in affiliated companies mainly concerns the net income of HUGO BOSS Trade Mark Management GmbH & Co. KG amounting to EUR 95 million (2012: EUR 97 million), which is transferred to and drawn from the loan account of HUGO BOSS AG as limited partner in accordance with the partnership agreement. Income from profit and loss transfer agreements pertains to income from profit and loss transfer agreements in place with subsidiaries of HUGO BOSS AG. In fiscal year 2013, this amounted to EUR 102 million (2012: EUR 153 million) and resulted from the transfer of profit from HUGO BOSS Internationale Beteiligungs-GmbH & Co. KG. In fiscal year 2013, this company received dividend income from HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen. In the past fiscal year, expenses from loss absorption totaled EUR 1 million (2012: EUR 0 million) and relate to the loss absorbed by HUGO BOSS Beteiligungsgesellschaft mbH, Metzingen.

**Income before taxes** came to EUR 272 million in fiscal year 2013 (2012: EUR 337 million). The decrease in income before taxes was attributable to the lower operating profit as well as the lower income from profit and loss transfer agreements and investments in affiliated companies.

At 22%, **the effective tax rate** was well above the prior-year level (2012: 14%). The dividend income contained in profit transfers and income from a foreign joint venture had a positive effect on the effective tax rate. By contrast, expenses from income taxes relating to other periods of EUR 16 million (2012: EUR 1 million) increased the effective tax rate. These mainly stem from the recognition of a provision for risks in connection with the tax field audit for the years 2007 through 2011 including subsequent effects. Without these two effects, the normalized effective tax rate for the fiscal year would have stood at 28% (2012: 28%).
At EUR 211 million, the net income for fiscal year 2013 was thus down on the prior-year level (2012: EUR 288 million).

NET ASSETS

Property, plant and equipment and intangible assets increased slightly to EUR 669 million (December 31, 2012: EUR 666 million). This was mainly driven by investment for the expansion of the retail network in Germany and Austria as part of the takeover and opening of a net figure of 32 new locations.

Inventories increased by 9% at the end of fiscal year 2013 to EUR 170 million (December 31, 2012: EUR 156 million). The main driver behind this development is the 17% increase in finished goods in connection with the worldwide expansion of the Group’s own retail business. By contrast, raw materials and supplies decreased by 13%. This development was largely a consequence of strict inventory management. As a result of the new business strategy, collection creation cycles were shortened, leading to shorter order lead times.

Trade receivables with external wholesale partners increased by 14% year on year to EUR 25 million (December 31, 2012: EUR 22 million). The main driver behind this development was an increased volume of deliveries made in the months of November and December compared to the prior year. Days sales outstanding deteriorated slightly compared to the prior year.

Receivables from affiliated companies saw an increase of EUR 65 million (December 31, 2012: EUR 31 million). This development is essentially attributable to the larger volume of receivables due from affiliated companies.

At EUR 29 million, other assets were up 22% year on year (December 31, 2012: EUR 24 million). These mainly pertain to bonus receivables from suppliers, credit card receivables as well as income tax and VAT receivables. Apart from the increase in income tax receivables, credit card receivables in particular increased as of the end of the year due to an increase in sales.

Cash and cash equivalents, as the sum of cash on hand and balances with banks, decreased by EUR 4 million to EUR 3 million compared to the prior year (December 31, 2012: EUR 7 million).

The equity and liabilities side was mainly affected by an increase in liabilities. These increased by 16% to EUR 355 million as of the reporting date (December 31, 2012: EUR 306 million). A key driver behind this development is the rise in liabilities due to affiliated companies on account of the newly obtained intercompany loan of EUR 100 million from HUGO BOSS International B.V. At EUR 88 million, trade payables were up 3% year on year (December 31, 2012: EUR 85 million).
On aggregate, provisions increased to EUR 110 million as of the reporting date (December 31, 2012: EUR 99 million). This increase is primarily attributable to an increase in tax provisions.

**Trade net working capital** is HUGO BOSS AG’s key performance indicator for measuring the efficient use of capital. The only components factored into the calculation of this indicator are inventories, trade receivables and trade payables. Trade net working capital increased by EUR 14 million year on year to EUR 107 million (December 31, 2012: EUR 93 million). The increase in inventories and trade receivables was only partially counterbalanced by an increase in trade payables.

### Financial Position

#### Statement of Cash Flows

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow from Operating Activities</th>
<th>Cash Flow from Investing Activities</th>
<th>Cash Flow from Financing Activities</th>
<th>Change in Cash and Cash Equivalents</th>
<th>Cash and Cash Equivalents at Beginning of the Period</th>
<th>Cash and Cash Equivalents at End of the Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>240</td>
<td>(73)</td>
<td>(170)</td>
<td>(4)</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>2012</td>
<td>332</td>
<td>(50)</td>
<td>(316)</td>
<td>(33)</td>
<td>40</td>
<td>7</td>
</tr>
</tbody>
</table>

At EUR 240 million, **cash inflow from operating activities** was down on the prior-year figure (2012: EUR 332 million). The decrease is mainly attributable to the EUR 77 million decline in net income combined with increased cash outflow from trade net working capital.

**Cash outflow from financing activities** totaled EUR 73 million in fiscal year 2013 (2012: EUR 50 million). This increase is essentially attributable to a larger amount of receivables from affiliated companies compared to the prior year. As in the prior year, investment in property, plant and equipment totaled EUR 39 million (2012: EUR 39 million).

**Free cash flow**, measured as the cash outflow from operating activities and the cash outflow from investing activities, decreased by EUR 115 million to EUR 167 million in the reporting year 2013 (2012: EUR 282 million).

The **cash outflow from financing activities** totaled EUR 170 million as of December 31, 2013 (2012: EUR 316 million). The payment of the dividend of EUR 215 million was partially compensated by higher liabilities to affiliated companies.

**Cash and cash equivalents**, as the sum of cash on hand and bank balances, decreased by EUR 4 million to EUR 3 million compared to the prior year (December 31, 2012: EUR 7 million).
CAPITAL EXPENDITURE

As in the prior year, investment in property, plant and equipment and intangible assets totaled EUR 39 million (2012: EUR 39 million).

**Intangible assets** mainly comprise software. The addition of EUR 13 million (2012: EUR 12 million) was mainly attributable to investment in software and user rights in connection with the continuous enhancement of the ERP system, comprising the industry solution SAP AFS and SAP Retail for the Group’s own retail business.

The additions to **property, plant and equipment** of EUR 26 million (2012: EUR 27 million) partly relate to additions of land and buildings in Metzingen. In addition, the opening of eight new retail stores in Germany and Austria, together with the takeover of 25 shop-in-shops that had previously been operated by wholesale partners in Germany led to additional capital expenditure. In 2013, additional retail stores were opened, including in Berlin, Vienna and Innsbruck.

Existing obligations from investment projects that have commenced are reported in the annual financial statements of HUGO BOSS AG under “Other financial obligations” and amount to EUR 2 million as of December 31, 2012 (December 31, 2012: EUR 8 million).

RISKS AND OPPORTUNITIES

The business development of HUGO BOSS AG is subject for the most part to the same risks and opportunities as those applicable to the HUGO BOSS Group. HUGO BOSS AG is generally exposed to the risks and benefits from the opportunities of its subsidiaries and investees to the extent of its share in equity in each case. → Report on risks and opportunities

As the parent company, HUGO BOSS AG is integrated in the Group-wide risk management system of the HUGO BOSS Group. The description required under Sec. 289 (5) HGB (“Handelsgesetzbuch”: German Commercial Code) of the accounting-related internal control system and risk management system for HUGO BOSS AG is presented in the HUGO BOSS Group’s risk report. → Report on risks and opportunities, Risk report

OUTLOOK

Due to its integration with the Group’s companies and its importance within the Group, the expectations for HUGO BOSS AG are reflected in the Group’s outlook. It is expected that the statements made for the HUGO BOSS Group with respect to the development of markets, sales and profit development will essentially be reflected in the sales and profit development of HUGO BOSS AG. → Subsequent events and outlook, Outlook