REPORT ON RISKS AND OPPORTUNITIES

The risk and opportunities policy of the HUGO BOSS Group aims to secure the continuation of the Group as a going concern by ensuring that the financial and strategic targets are reached. It is therefore committed to the long-term increase in enterprise value. Effective risk management enables the Group to identify risks at an early stage and to mitigate any potential adverse consequences by implementing suitable measures. In combination with the systematic identification of new opportunities, this increases the reliability of the Group’s decision making process and establishes the foundation for continuous target realization.

RISK REPORT

The success of the HUGO BOSS Group is based on the systematic use of opportunities within the framework of the medium- and long-term corporate strategy. Complementary to this, the risk policy pursues the objective of securing the Company’s continuation as a going concern by supporting the efforts of the operating units to implement the strategy, thus increasing the enterprise value in the long term.

RISK MANAGEMENT

Successful risk management is founded on Group-wide standards for systematically handling risks. These are set for the HUGO BOSS Group by the Managing Board as part of the risk policy and documented in a risk manual that is applicable throughout the Group and is available for all employees online. Risks are defined as potential, negative deviations from the planned operating result (EBIT). Clear thresholds describe the risk-bearing capacity of the HUGO BOSS Group and permit a classification of risks into levels from “minor” to “high”. Risks are reported at regular intervals. Whenever there are critical topics, the regular reporting process is supplemented by ad hoc reporting in order to allow timely analysis of new developments. In addition, the employees of the HUGO BOSS Group are obliged to be aware of risks in their behavior, especially regarding those risks that may threaten the existence of the Group. All risks are systematically recorded using risk software. This ensures reliable version management and audit trails. The HUGO BOSS Group’s risk management system is designed in accordance with and complies with the recommendations of the international standard ISO 31000.

A dedicated team at the headquarters of HUGO BOSS AG is responsible for the coordination of the Group-wide risk management in order to identify risks early, analyze and monitor them, and to counteract them with risk mitigation measures. The team continuously enhances the tools of the risk management system and ensures that risks and opportunities are identified Group-wide using a uniform methodology at regular, pre-defined intervals. All information concerning the risks identified in the subsidiaries worldwide converges here allowing its timely aggregation and analysis at Group level. The team regularly communicates with all risk owners so that it is always informed of the latest developments.
Responsibility for risk analysis, adequate handling of risks and the implementation of effective risk mitigation measures is locally assigned to the respective divisions or subsidiaries where risks occur. To this end, risk owners are defined in each case. The team responsible for central risk management regularly reports to the Managing Board, supports it in the implementation, execution and monitoring of the risk management and internal control system as well as in the process of reporting to the Audit Committee of the Supervisory Board.

**03|43 HUGO BOSS RISK POLICY**

<table>
<thead>
<tr>
<th>Central risk management</th>
<th>Risk expert/risk owner</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk management system</strong></td>
<td><strong>Risk management process</strong></td>
</tr>
<tr>
<td>Enhance</td>
<td>Coordinate communicate and advise</td>
</tr>
<tr>
<td>Design</td>
<td></td>
</tr>
<tr>
<td>Monitor</td>
<td>Implement</td>
</tr>
</tbody>
</table>
| Implement | Analyze: identify + quantify
| | Manage: countermeasures
| | Monitor: early indicators/thresholds
| | Communicate
| | Document |

Risks are handled in four ways: avoidance, mitigation, transfer and acceptance. Consequently, one of the elements of risk management includes the transfer of risks to insurers. This allows the financial consequences of insurable risks to be largely neutralized.

The current status of all identified risks is assessed at least once a year or at more frequent half-yearly, quarterly or monthly intervals, depending on the extent of the financial effect. In this process, new developments are documented and the risk quantification is revised if necessary. To this end, an estimate is made of the likelihood of occurrence of risks and the associated effects on the operating result (EBIT).

**03|44 MEASUREMENT CRITERIA FOR BUSINESS RISKS**

<table>
<thead>
<tr>
<th>Likelihood of occurrence</th>
<th>Extent of financial impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>unlikely</td>
<td>≤ 20%</td>
</tr>
<tr>
<td>possible</td>
<td>&gt; 20 – 40%</td>
</tr>
<tr>
<td>likely</td>
<td>&gt; 40 – 60%</td>
</tr>
<tr>
<td>very likely</td>
<td>&gt; 60%</td>
</tr>
<tr>
<td></td>
<td>minor</td>
</tr>
<tr>
<td></td>
<td>moderate</td>
</tr>
<tr>
<td></td>
<td>significant</td>
</tr>
<tr>
<td></td>
<td>high</td>
</tr>
</tbody>
</table>

Decentralized risk management in the divisions

Differentiated risk quantification based on a multiple scenario analysis
To obtain a more precise view of the potential effects of identified risks, alternative risk scenarios are analyzed for the best, medium and worst case. This permits the inclusion of the potentially substantial effects from extreme scenarios that are unlikely to occur but which could have severe ramifications. The risk owner assigns a weighting to each of the three scenarios to calculate the average impact in the event of occurrence. This approach allows not only a differentiated view of potential effects, but also thorough analysis of unlikely extreme scenarios, that could potentially have a significantly stronger impact on the ability of the HUGO BOSS Group to achieve its objectives. In addition to the quantification of risk based on a 12-month planning period, medium-term risk trends are also determined. For growing risks, this approach permits the timely development of adequate countermeasures.

The continuous monitoring of early warning indicators enables the Group to identify possible deviations from the budget at an early stage. Reporting chains and the adoption of suitable countermeasures defined in advance ensure timely response in the event of occurrence. All of this information is compiled in the Group-wide risk software and is available at all times.

This allows the HUGO BOSS Group to identify risks at an early stage and to respond quickly and in a targeted manner. The risk management system is reviewed at regular intervals by the internal audit department to ensure its proper functioning and appropriateness. In consultation with the external auditors, the Audit Committee set up by the Supervisory Board regularly monitors the effectiveness of the systems of internal control, risk management and internal audit. In the course of the audit of the annual financial statements, the external auditors verify whether the Managing Board has suitably implemented the measures prescribed by Sec. 91 (2) Aktiengesetz (AktG – German Stock Corporation Act).

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

<table>
<thead>
<tr>
<th>RISK CATEGORIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXTERNAL RISKS</strong></td>
</tr>
<tr>
<td>Overall economy</td>
</tr>
<tr>
<td>Country-specific factors</td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Risk categories and structure of the risk atlas
The main risks to which HUGO BOSS is exposed in fiscal year 2014 are presented in the following. The risks discussed concern both the operating segments as well as the corporate units of the HUGO BOSS Group. In general, it is possible that additional risks which are currently unknown or estimated as immaterial may also adversely affect the Group’s development in the future. Irrespective of all measures introduced to manage the identified risks, entrepreneurial activity is always exposed to residual risks that cannot be fully eliminated, even by a comprehensive risk management system as that implemented in the HUGO BOSS Group. The respective net risk as the actual risk potential arises from the gross risk reduced by measures taken to mitigate or avoid the risks identified.

**EXTERNAL RISKS**

Like any company with global activities, the HUGO BOSS Group is exposed to risks arising from the uncertainty of future developments of macroeconomic conditions. A decisive factor in this context is the development of the global economy, which can lead to reduced demand for apparel and accessories in the premium and luxury segments. Its dependence on consumer behavior exposes the consumer goods industry in general to risks that can impact budgeted sales and/or margins. The effects of macroeconomic developments can occur globally or in individual markets, and can have knock-on effects. However, the advance order intake and the development of the Group’s own retail business, provide the HUGO BOSS Group with early warning indicators that permit an early forecast of the consequences of potential macroeconomic risks. The HUGO BOSS Group has taken several measures to mitigate the impact of turns in the business cycle. This includes a clear brand profile geared towards the expansion of the market share in a highly competitive environment. A business model designed for international growth also taps the potential of new consumer groups and serves to compensate for potential decreases in demand in individual markets. A further objective is to achieve a balanced distribution of sales across different regions to avoid overdependence on individual markets. Looking at fiscal year 2014, the Group generally expects the continued growth of the global economy and the premium and luxury industry. Adverse macroeconomic developments can impact planned business growth, however, regardless of the measures taken. In light of continuing uncertainty in connection with the euro debt crisis and the final settlement of the budget dispute in the United States, management deems the potential financial consequences to be significant. The probability of occurrence of such a strong effect on global demand is considered to be unlikely, however.

A company with international activities, HUGO BOSS is also exposed to risks in connection with the development of individual sales markets. This risk can be triggered by changes in the political or regulatory environment or by socioeconomic developments. As is the case with any company, the Group’s net assets, financial position and results of operations are exposed to the risk of terrorist activities and natural disasters. To keep sovereign risks as low as possible, HUGO BOSS products are sold for the most part in countries with stable economic and political conditions. At present the Managing Board considers major changes
to the regulatory environment in the key sales markets of the HUGO BOSS Group to be unlikely. In addition, global distribution in more than 120 countries at Group-level provides a natural hedge against adverse developments in individual markets. Consequently, the Managing Board estimates the financial impact of an unexpected change in country-specific conditions to be minor.

**STRATEGIC RISKS**

Collection and industry risks can arise from changes in fashion and lifestyle trends. The challenge lies in identifying the right trends in time and translating these quickly into an unmistakable collection statement. HUGO BOSS counters these risks with in-depth analyses of target groups and markets and the detailed assessment of the development of sales in the past season. Greater proximity to customers through the retail business also makes a major contribution toward quickly channeling information on trends and consumer behavior into collections. The probability of occurrence of collection and industry risks is therefore deemed unlikely by management. Potential adverse effects are classified as minor.  

**Group strategy**

The economic success of HUGO BOSS hinges on the brand image together with a strong and lasting positioning of the Group’s brands in the premium and luxury market. As a consequence, protecting and maintaining brand image has a high priority at HUGO BOSS. Strategic measures are taken for this purpose, including but not limited to a continuous monitoring of markets and media, clearly differentiated brand positioning supported by targeted marketing activities and a globally consistent brand presence. In addition, legal trademark protection and the prosecution of product piracy are important efforts to secure the brand image.

The corporate image of the HUGO BOSS Group is reflected in its perception by stakeholders such as customers, shareholders, suppliers and employees. Corporate communication is centrally coordinated by the corporate communication and investor relations departments. HUGO BOSS uses these interfaces to stay in continuous dialog with key interest groups. Compliance with laws, standards and guidelines, both within the Group and by suppliers is also regularly verified. Nevertheless, negative effects on the brand image and the Group’s reputation remain possible. Based on the measures taken, however, the effects on the Group’s net assets, financial position and results of operations are deemed minor.

**Investment risk**

One of the core strategic measures of HUGO BOSS is to continue the expansion of the Group’s own retail business. Retail activities involve investment risks that arise in connection with the establishment and maintenance of stores, long-term leases and personnel expenses. This leads to an increase in fixed costs. However, it also widens the gross profit margin. To keep the risk of bad investments and unprofitable Group retail stores as low as possible, decisions on the opening and closing of stores are made centrally in consultation with the responsible regional director. Prior to opening new retail stores, all locations are thoroughly examined regarding their potential and comprehensive sales and development plans are prepared. Nevertheless, there is still a general risk that individual retail stores of
the Group will fail to reach the originally budgeted sales targets and, in the worst case, that
they might need to be closed. Group companies therefore have to submit a monthly report
on the performance of their retail activities so that negative developments can be detected
early and countermeasures taken. The investment risk is also mitigated by the standardized
store concept used in all points of sale worldwide, which means that fixtures and fittings
can be redeployed elsewhere if a store is closed. As part of general investment controlling
activities, the value contribution of all other investments is also examined taking into account
the risks involved. In light of the measures described above, the investment risk is deemed
minor and unlikely to occur. ► Group management, Investment controlling

FINANCIAL RISKS
The central tasks of the HUGO BOSS Group include coordinating and managing internal
financing requirements, ensuring the financial independence of the Group as a whole and
mitigating financial risks.

The HUGO BOSS Group is mainly exposed to financing and liquidity risks, interest rate risks,
currency risks and credit risks as well as tax and pension risks. These risks are subject to
continuous and intensive control. The development of exposures is constantly monitored,
quantified and – if necessary – hedged in order to mitigate accounting risks.

Managing liquidity risks is one of the central tasks of the treasury department of
HUGO BOSS AG. Liquidity risk is the risk that existing or future payment obligations cannot be
settled in terms of timing, volume or currency due to a lack of cash. The HUGO BOSS Group
manages this risk centrally. To ensure the Group’s liquidity and financial flexibility at all times,
financial requirements are determined based on a three-year financial planning and monthly
rolling liquidity planning broken down by currency with a planning horizon of up to one year.
These are then secured using lines of credit and liquid funds.

The HUGO BOSS Group successfully refinanced the syndicated loan that expired in May
2013 using a new syndicated loan. The new syndicated loan, which was granted by a
syndicate of banks, has a total line of credit of EUR 450 million and a term of five years. It is
intended for general corporate financing and comprises a fixed tranche of EUR 100 million
and a revolving tranche of EUR 350 million. HUGO BOSS has thereby secured its long-term
financial flexibility. Apart from the fixed tranche of EUR 100 million, a further EUR 11 million
had been drawn from tranche subbranches as of the reporting date.

The existing syndicated loan agreement contains standard covenants requiring the mainte-
nance of total leverage. A breach of covenants would lead to the early termination of the
agreement. Even if general economic conditions deteriorate, HUGO BOSS does not see
any risk of breaches of financial covenants. ► Net assets and financial position, Financing
Apart from the syndicated financing line of credit, HUGO BOSS has short-term bilateral lines of credit amounting to EUR 111 million, which afford even greater flexibility.

The syndicated as well as the bilateral lines of credit contain customary conditions that grant the contracting parties additional termination rights in the event of a change of control.

In addition to the line of credit amounting to EUR 561 million as of December 31, 2013, the Group had liquid funds of EUR 119 million as of the reporting date. These funds are generally held as call deposits and time deposit investments. In addition, the HUGO BOSS Group mitigates financing and liquidity risks further using a cash pooling mechanism. Based on the amounts drawn from the lines of credit, the cash situation and the cash pooling mechanism in place, management deems the occurrence in the case of financing and liquidity risks to be unlikely and the financial impact to be minor.

**Interest rate risks**

Market-driven fluctuations in interest rates impact future interest income and payments on cash balances and liabilities subject to variable interest on the one hand. On the other hand, they also influence the market value of financial instruments. Significant changes in interest rates can therefore affect profitability, liquidity and the financial position of the Group.

The financial liabilities of the HUGO BOSS Groups are mostly subject to variable interest rates and have short-term fixed-interest periods. The resulting interest rate risk also poses a cash flow risk with implications for the amount of future interest payments. To minimize the effects of future interest volatility on borrowing cost, derivative financial instruments in the form of interest rate swaps are used for the most part. Derivatives designated to an effective hedge within the meaning of IFRS impact equity in the event of interest rate changes. Derivatives that are not designated to such a hedge are posted to profit or loss. As of the reporting date, derivatives amounting to EUR 100 million were designated as effective interest rate hedges for the syndicated loan agreement within the meaning of IFRS.

Moreover, opportunity effects can arise. These result from the recognition of non-derivative financial instruments at amortized cost rather than at fair value. The opportunity risk is the difference between both values, although this is neither reported in the statement of financial position nor in the income statement.

Owing to the continued low interest rates, the shift in the interest yield curve of +100/–30 basis points as in the prior year was repeated in the reporting year in order to avoid negative interest and present realistic scenarios in the analysis of interest rate sensitivity as of the reporting date. Given the underlying exposures to the euro, yen and Chinese renminbi, HUGO BOSS considers this change to be appropriate. In some cases, financial transactions were based on market interest rates below 30 basis points. In such cases, the lower sensitivity threshold was set at zero.
In accordance with IFRS 7, the effect on profit and equity of changes in the most important interest rates was analyzed. The scope of the analysis included variable-interest financial liabilities of EUR 134 million (December 31, 2012: EUR 339 million), interest derivatives of EUR 111 million (December 31, 2012: EUR 312 million) and cash and cash equivalents of EUR 119 million (December 31, 2012: EUR 255 million). The impact of interest rate fluctuations on future cash flows was not included in this analysis.

### Interest Rate Sensitivities as of December 31

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+100 bp (30) bp</td>
<td>+100 bp (30) bp</td>
</tr>
<tr>
<td>Cash flow risks</td>
<td>0.5 (0.2)</td>
<td>1.7 (0.5)</td>
</tr>
<tr>
<td>Risks from interest rate derivatives recognized in income</td>
<td>0.7 (0.2)</td>
<td>0.8 (0.3)</td>
</tr>
<tr>
<td>Effects on net income</td>
<td>1.2 (0.4)</td>
<td>2.5 (0.8)</td>
</tr>
<tr>
<td>Risks from interest rate derivatives reflected on the consolidated statement of financial position</td>
<td>3.1 (0.9)</td>
<td>0.8 (0.1)</td>
</tr>
<tr>
<td>Effects on Group equity</td>
<td>4.3 (1.3)</td>
<td>3.3 (0.9)</td>
</tr>
</tbody>
</table>

An increase in market interest rates by 100 basis points as of December 31, 2013 would have led to an increase in net income of EUR 1.2 million (2012: EUR 2.5 million) and an increase in Group equity of EUR 4.3 million (December 31, 2012: EUR 3.3 million). A decrease in market interest rates by 30 basis points would have led to a decrease of EUR 0.4 million (2012: EUR 0.8 million decrease) in net income and a EUR 1.3 million decrease (December 31, 2012: EUR 0.9 million decrease) in Group equity. The effects from interest rate derivatives would have resulted from changes in fair value. Cash flow risks would have mainly resulted from higher/lower interest income and expenses from cash and cash equivalents.

Based on the effects of interest changes on financial instruments illustrated by the sensitivity analysis, the effects of interest rate changes on the HUGO BOSS Group are classified as minor. Given the expansionary monetary policy, particularly by the European Central Bank and the Federal Reserve, management currently considers significant interest rate changes likely with a minor financial impact.

The currency risks of the HUGO BOSS Group essentially result from the global business activities and the Group’s internal financing activities. In business operations, exchange rate risks mainly relate to receivables and liabilities (transaction risk), such as through the sourcing of goods in a currency other than the Group’s functional currency or through intercompany financing activities in Group companies that have a functional currency other than the euro.

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

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**Currency risks**
HUGO BOSS Group from business operations are mainly attributable to the business operations in the United States, Great Britain, Australia, Switzerland, Japan, Hong Kong and China as well as the purchasing activities of sourcing units in foreign currency.

Exchange rate risks also arise from the translation of the net assets employed at Group companies outside the eurozone and of their income and expenses (translation risk). The Group does not hedge this risk. → Notes to the consolidated financial statements, Currency translation

Exchange rate management for transaction risks is centrally performed for all Group companies. The primary objective is to mitigate the overall exchange rate exposure using natural hedges. Such hedges are based on the offsetting of exchange rate exposures from business operations throughout the Group against each other, thereby reducing the overall exposure requiring hedging measures by the amount of the closed positions.

Forward exchange contracts and swaps as well as plain vanilla currency options can be concluded to hedge the remaining exposures. The primary objective of the hedging strategy is to limit the effects of exchange rate fluctuations on the balance sheet. As a rule, the terms of the derivatives entered into are adjusted to the underlying hedged item when they are concluded. The derivative financial instruments, which are traded in the OTC market, are solely intended to hedge the risk intrinsic in hedged items. To obtain the best possible terms, quotes are requested from several banks and the transaction is concluded with the bank that offers the best terms.

Foreign currency risks in financing result from financial receivables and liabilities in foreign currency and loans in foreign currency granted to finance Group companies. A distinction is drawn between two types of agreements when granting loans to Group companies. Operating loans are structured similarly to an overdraft facility and can be drawn flexibly within a set credit limit. Financing loans are granted to Group companies with greater financing requirements. As of the reporting date, the main financing loans with repayment on final maturity were hedged using forward exchange contracts.

Group-wide guidelines ensure strict separation of the functions trading, handling and control for all financial market transactions. The same guidelines form the basis for the selection and scope of hedges. The objective of currency hedges is to minimize currency effects on the development of the Group’s net income and equity.

The currency risk is determined based on the balance sheet currency exposure as of December 31, 2013. This approach is chosen by the HUGO BOSS Group based on its hedging strategy, which aims to minimize balance sheet risks. The exposures include cash, receivables and payables as well intercompany loans held in currencies other than the functional currency of each respective Group company. Effects from the translation of financial statements of foreign subsidiaries outside the eurozone are not taken into account.
Based on the requirements of IFRS 7, the HUGO BOSS Group has calculated the effects of changes in the most important exchange rates on net income and equity. The following sensitivity analyses show the net income and equity that would have resulted if different exchange rates had prevailed as of the reporting date. It is assumed that the balances as of the reporting date are representative for the entire year.

| 03|47 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2013 | USD | GBP | AUD | CHF | JPY | HKD | CNY |
|-----------------------------|------|------|------|------|------|------|------|
| Gross currency exposure     | 3.7  | 14.8 | 27.5 | (39.7)| 25.6 | (9.5)| 21.9 |
| Hedging                     | (17.4)| (15.6)| (25.9)| 0.0  | (22.1)| 0.0  | 0.0  |
| Net currency exposure       | (13.7)| (0.8)| 1.5  | (39.7)| 3.4  | (9.5)| 21.9 |
| Historic volatility         | 8.4  | 7.3  | 10.4 | 4.9  | 12.4 | 9.0  | 9.1  |
| Appreciation of the euro by standard deviation | Net income | 0.9  | 0.0  | (0.1)| 1.5  | (0.3)| 0.7  | (1.5) |
| Depreciation of the euro by standard deviation | Net income | (0.9)| 0.0  | 0.1  | (1.5)| 0.3  | (0.7)| 1.5  |

| 03|48 EXPOSURE AND SENSITIVITIES AT THE REPORTING DATE DECEMBER 31, 2012 | USD | GBP | AUD | CHF | JPY | HKD | CNY |
|-----------------------------|------|------|------|------|------|------|------|
| Gross currency exposure     | 40.4 | 16.6 | 22.5 | (30.0)| 29.8 | (7.5)| 18.5 |
| Hedging                     | (45.5)| (21.4)| 0.0  | 0.0  | (26.4)| (4.4)| 0.0  |
| Net currency exposure       | (5.1)| (4.8)| 22.5 | (30.0)| 3.4  | (11.9)| 18.5 |
| Historic volatility         | 9.2  | 6.8  | 8.7  | 4.8  | 12.3 | 9.5  | 9.4  |
| Appreciation of the euro by standard deviation | Net income | 0.4  | 0.2  | (1.5)| 1.1  | (0.3)| 0.9  | (1.3) |
| Depreciation of the euro by standard deviation | Net income | (0.4)| (0.2)| 1.5  | (1.1)| 0.3  | (0.9)| 1.3  |

The historical volatility of the individual foreign currencies was factored in to present the fluctuation of the foreign currencies of relevance to the HUGO BOSS Group relative to the euro and satisfy the requirements of IFRS 7 with regards to the disclosure of a “reasonably possible change”. This was calculated based on daily fluctuations over the past twelve months.

Had the euro appreciated against the foreign currency exposures of relevance by one standard deviation in each case the Group’s net income would have been EUR 1.2 million higher (2012: EUR 0.5 million lower). Had the euro depreciated by the same amount, the Group’s net income would have been EUR 1.2 million lower (2012: EUR 0.5 million higher). As of the reporting date, there were no derivatives designated as effective currency hedges within the meaning of IAS 39 reported directly in equity. The sensitivity of equity is thus reflected in the consolidated net income.
Management expects changes in the exchange rates of relevance to HUGO BOSS to be likely in fiscal year 2014. The risk of exchange rate fluctuations and its impact on the earnings of the HUGO BOSS Group based on the above sensitivity analysis is classified as minor.

**Credit risk**
The credit risk related to financial institutions mainly results from the investment of liquid funds as part of liquidity management, from any short-term bank deposits and from trading in derivative financial instruments.

With respect to financial instruments, the Group is exposed to a (bank) default risk in connection with the possible failure of a contractual party to meet its obligations. The maximum amount involved is therefore the positive fair value of the financial instrument in question. To minimize the risk of default, the HUGO BOSS Group generally only contracts financial instruments for financing activities with counterparties that have excellent credit ratings and in compliance with set risk limits. Only in exceptional cases and subject to the approval of the Managing Board it is permitted within tight limits to hold time deposits and conclude derivative transactions with banks that have lower credit ratings. HUGO BOSS assumes that the concentration of risk is low and perceives the probability of counterparty default to be unlikely with a minor financial impact. \( \rightarrow \) *Notes to the Consolidated Financial Statements, Note 26*

**Share price risk**
In contrast to the prior year, there were no share price risks as of the reporting date as there were no option rights from the stock appreciation rights program that could be exercised. \( \rightarrow \) *Notes to the Consolidated Financial Statements, Note 37*

**Tax risks**
Tax issues are regularly analyzed and assessed by the central tax department in cooperation with external tax consultants. There are tax risks for all open assessment periods. These can result from current business operations or changes in the legal or tax structure of the Group. Sufficient provisions were recognized in prior fiscal years for known tax risks. The amount provided for is based on various assumptions such as interpretation of the respective legal requirements, latest court rulings and the opinion of the authorities, which is used as a basis by management to measure the loss amount and its likelihood of occurrence. It is also resorted to the opinion of local authorized experts such as lawyers or tax consulting firms. On account of changes in the tax legislation of individual countries or diverging estimations of existing issues by the tax authorities, the Group assumes that additional tax risks are likely with minor financial impact.

**Pension risks**
The HUGO BOSS Group is exposed to risks in connection with defined benefit obligations. These can impact the net assets, financial position and results of operations of the Group. Pension commitments are measured on the basis of actuarial reports and accounted for accordingly. The main measurement parameters are the discount rate and the expected salary and pension trends. Future changes in measurement parameters can lead to an increase or decrease in pension provisions on subsequent reporting dates. Furthermore, changes in financial markets can affect the value of the plan assets available to cover the pension obligations. Furthermore, local pension regulations in specific countries can also lead to increased cash outflows. Pension risks and their effect on the net assets, financial position and results of operations are classified as likely with a minor financial impact. \( \rightarrow \) *Notes to the Consolidated Financial Statements, Provisions for Pensions, Note 25*
OPERATIONAL RISKS

The high quality requirements imposed on HUGO BOSS products and, in turn, on sourcing and production processes make close partnering with suppliers essential. However, concentration of production capacity can result in sales losses in the event of production downtime. Strategic suppliers are regularly inspected and rated so that any adverse developments are detected early and appropriate countermeasures can be implemented. A concentration of risk could also result from regional incidents affecting several suppliers, divisions or product groups at the same time.

To secure a reliable supply of production material and capacity at suitable quality and cost levels, orders to suppliers as well as capacity utilization are coordinated centrally. The supplier structure is regularly reviewed in order to detect sovereign risk in due time. Given the high quality standards and available production capacities, HUGO BOSS attempts to spread risks by diversification. The sourcing volume is distributed among a global network of suppliers in order to maintain the greatest possible independence from individual procurement markets and producers. Indeed, the largest single independent supplier only made up about 7% of the total sourcing volume (2012: 8%). As a rule, HUGO BOSS avoids single sourcing and identifies alternative suppliers early on as needed to secure the supply of goods in the event of contingencies. Against the backdrop of the known earthquake risks at the Group’s own production site in Turkey, particularly thorough measures have been implemented here. Based on a regular analysis of the potential damage, relocation options have been identified and the risks of financial loss covered to the extent possible by taking out insurance.

Given the measures in place, management estimates that risks from dependence on individual suppliers or the regional distribution of the volume sourced are unlikely to occur. The financial consequences of risks in connection with supply chain interdependencies have decreased slightly compared to the prior year thanks to the optimization of sourcing processes and are now classified as minor.

Wage increases in production, which are particularly likely in emerging economies, together with rising prices for raw materials can augment production costs and burden gross profit margin. The HUGO BOSS Group counters this risk with margin-based collection planning, Group-wide measures to improve efficiency in production and sourcing processes, improvements in the use of materials and rigorous implementation of the pricing policy. The lead time in sourcing and production processes provides an opportunity to respond to early warning indicators. Given current developments in emerging economies, it is assumed at present that, although risks from higher production costs are still possible, they would only have a minor negative impact on the expected development of earnings.
The allocation of production capacity as well as raw materials and finished goods as part of the sourcing processes involves planning risks. Deviations from an appropriate allocation can lead to excess allocation resulting in high inventory levels on the one hand. On the other hand, it can also lead to insufficient allocation and the risk of failing to benefit from sales opportunities. In view of the large volumes involved, such misallocations have to be considered likely; depending on their magnitude, the associated financial consequences could have a significant impact on the expected development of earnings. As a consequence, the Group is making great efforts to continually improve forecast quality and shorten lead times to further mitigate this risk. To this end, the electronic integration of suppliers in the Group’s organization was driven forward in the past few years, thereby optimizing transparency along the entire supply chain. → Sourcing and production

Quality risks

Product quality is decisive for brand image. With this in mind, HUGO BOSS products are subject to quality assurance controls that are standardized throughout the Group and executed at all steps of the manufacturing process. Production sites are regularly inspected by field technicians who verify whether design and product specifications are being strictly complied with. Entry controls, controls at suppliers and quality checks at the Technical Development Center located at the Metzingen headquarters ensure that the strict quality standards of HUGO BOSS are followed and that goods are supplied to customers in immaculate conditions and on schedule. Nevertheless, a certain amount of product returns for quality reasons is still very likely in the future. However, the impact on the development of earnings is classified as minor to moderate due to the recognition of appropriate provisions for returned goods and the regular review of the amounts recognized. → Sourcing and production

Logistics risks

Raw materials and finished goods are stored in a small number of selected locations that guarantee the highest quality standards. The central distribution center for hanging garments at the Group’s headquarters in Metzingen and the commissioning of a modern flat goods warehouse in 2014 reinforce this consolidation trend. HUGO BOSS is exposed to logistics risks, mainly related to the outage or loss of warehouses. To counteract the risk of losing raw materials or finished goods and, in turn, sales due to interruptions in supply, warehouses of strategic importance are operated by the Group and extensive technical and organizational measures for fire prevention and security are implemented; their observance is continually inspected. HUGO BOSS has also taken out insurance to cover the indirect financial risk from a loss of warehoused goods or the outage of the Group’s own production facilities. The risks involved in commencing operations at the new flat goods warehouse are minimized with the support of professional project management and by gradually increasing its capacity. Taking into account the measures in place, the likelihood of occurrence with respect to logistics risks has remained nearly unchanged compared to the prior year and is still classified as possible. However, the associated financial consequences are expected to be minor.

Sales and distribution risks

The increasing significance of the Group’s own retail business has led to an increased inventory risk, particularly in the event of unfavorable macroeconomic developments. The challenge of inventory management is to optimize inventories without compromising the ability to rapidly respond to customer orders. To mitigate inventory risks and optimize inventories in general, replenishment activities are coordinated by a competence center. Write-downs provide for
inventory risks from slow-moving goods and the resulting reduction in marketability; these are reviewed at regular intervals. Sufficient write-downs were recognized as of the reporting date from management’s perspective. A downturn in demand or an erroneous assessment of sell-through rates can have a negative impact on stock turnover and possibly result in higher discounts. The countermeasure of granting additional discounts necessarily translates to a reduced margin and is therefore continually monitored by the controlling department. A centrally managed pricing policy, differentiated retail channels and collections adjusted to the respective distribution channel serve to further improve the efficiency of sales floor space. Nevertheless, unanticipated developments in sales markets leading to additional discounts or higher impairment losses will still be possible in the future. The Managing Board estimates the resulting effects on the net assets, financial position and results of operations of the Group to be moderate.

Attention is paid to ensuring a balanced customer structure to avoid a potential overdependence on customers in the wholesale channel. The expansion of the Group’s own retail activities reduces the overall dependence on the wholesale business. Indicators such as order backlog, sales and supply rates are monitored continually and in a timely manner by the controlling department. In addition, bad debts can be incurred in the wholesale channel. This risk is a function of both macroeconomic developments as well as the individual situation of customers. The HUGO BOSS Group is thus exposed to the negative impact of the insolvency of individual business partners and a concentration of bad debts in the event of a deterioration of economic conditions in individual markets and regions. The Group-wide receivables management based on uniform rules which has been implemented in the past, was intensified further by introducing centrally coordinated measures. These focus on credit rating checks and the setting and observance of customer credit limits, monitoring of the age structure of receivables and the handling of doubtful accounts. In specific cases, this also means that deliveries are only made upon prepayment or by agreeing other terms designed to secure payment, or to the discontinuation of business with customers with an insufficient credit rating. The internal audit function regularly checks compliance with these Group guidelines. As of the reporting date, there was no concentration of default risk caused by significant overdue payments of individual customers. Consequently, risks in connection with the default of wholesale partners are possible but their overall impact is estimated to be minor.

**ORGANIZATIONAL RISKS**

A powerful IT infrastructure uniformly implemented throughout the Group ensures smooth business operations. Various measures have been taken to mitigate the risk of system interruptions, data loss and unauthorized access including multi-level security and anti-virus concepts, the issue of user rights, access control systems, data backups and uninterrupted power supply. HUGO BOSS also works with professional service providers to avert risks in specific subareas. Consequently, management assumes that the probability of occurrence with respect to IT risks is unlikely and that any financial effect would be minor.
Legal risks

Possible legal risks can arise in the course of worldwide business activities. All significant legal transactions entered into by the HUGO BOSS Group are reviewed and approved by the central legal department to avoid litigation to the extent possible. The central legal department works closely with local lawyers and subsidiaries. Insurance policies with coverage worldwide are used to mitigate liability risk. Sufficient provisions were recognized in the past fiscal year for current litigation costs. A burden from additional legal risks is considered possible, although the impact on the net assets, financial position and results of operations of the Group is considered minor from the perspective of management.

Personnel risks

Personnel risks mainly stem from recruitment bottlenecks, a shortage of specialists and employee turnover. These risks are limited using a comprehensive range of training measures, performance-based compensation and timely succession planning. In addition, extensive talent and performance management supports the development and career planning of employees in a targeted way. The Group’s good reputation with respect to working conditions and employee satisfaction is regularly confirmed by the Group’s consistent presence in the top positions of various employer rankings. The Group will continue to enhance the employer branding of HUGO BOSS in the future with additional initiatives and raise its appeal to secure the loyalty of employees. Measures launched in the past, such as the promotion of employee health and the support for striking a work-life balance will remain a focal point in future. Due to the successful measures, the Group is well positioned to face the growing international competition for highly qualified specialists and managers. As a result, it estimates the probability of occurrence of the associated risks to be unlikely with a minor impact on the planned development of earnings. → Employees

Risks relating to corporate governance and compliance

HUGO BOSS is characterized by a trust-based corporate culture with flat hierarchies. Conscientious conduct and mindsets are encouraged at every organizational level. Despite sophisticated and multi-level review and control mechanisms, access to confidential information and the high level of entrepreneurial leeway allowed generally entail the risk of misuse. In line with good corporate governance, HUGO BOSS has therefore incorporated corresponding rules in the employment agreements concluded with all employees. Individuals with insider knowledge within the meaning of German stock corporations law undertake to comply with the pertinent requirements and are listed in an insider register. In addition, the existing authorization rules are regularly reviewed and enhanced.

All employees of the HUGO BOSS Group are required to comply with the general code of conduct applicable throughout the Group and the supplementary compliance rules applicable in specific areas. As in the past, an extensive training program was implemented on the topic of compliance again in the past fiscal year. Compliance is monitored centrally and reported to the Managing Board. Compliance infringements are classified as possible, although their financial impact would be minor from the perspective of management.
In addition, suppliers are contractually bound to comply with social standards which govern issues such as occupational health and safety, bans on child labor and fair wages. Oversight takes the form of regular inspections. If infringements of standards and legal requirements are detected, depending on the seriousness of the infringement, the review frequency is increased and a binding plan of measures is agreed, with its implementation being monitored. In serious cases, a cooperation may be discontinued. Failure to comply with the Group’s social standards is currently classified as unlikely by the Managing Board as a whole. Unexpected infringements could have a moderate impact on the Group’s net assets, financial position and results of operations. ►Sustainability ◗ Corporate Governance Report

ASSESSMENT OF THE RISK SITUATION BY MANAGEMENT

On the basis of the detailed information that is continually recorded as part of the risk management process both by the parent Group and the subsidiaries worldwide and evaluated by the central risk management team, the Managing Board currently assumes that based on the information available all individual and aggregated risks can be classified as manageable. Interdependencies or common causes that could simultaneously trigger several risks also do not endanger the continued existence of the Group as a going concern. In general, however, the existence of additional latent risks that were not or only insufficiently identified as part of the risk management process cannot be ruled out.

Compared to the last report as of the end of fiscal year 2012, the HUGO BOSS Group’s overall risk exposure has decreased slightly despite the growth realized and still projected. As in prior years, the largest risk position stems from the category operative risks.

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REPORT ON THE ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM PURSUANT TO SEC. 289 (5) AND 315 (2) NO. 5 HGB

The system of internal control and risk management of the HUGO BOSS Group, as applied to the financial reporting process and the financial statements closing process, aims to accurately compile, present and assess all business transactions in the accounting records. The clear definition of areas of responsibility in the finance department of HUGO BOSS AG and the proper basic and advanced training of employees together with the deployment of adequate software and issue of uniformly applicable guidelines form the basis for a professional, efficient and consistent financial reporting process. Overall, this ensures that assets and liabilities are accurately recognized, measured and disclosed in the consolidated financial statements and that a reliable statement can be made on the net assets, financial position and results of operations as well as the cash flow.

Management controls across all divisions depend on accurate and up-to-date information. Business information and reporting systems are therefore of high importance. In this context, the control quality has improved considerably with the Group-wide introduction of SAP AFS, SAP Retail and the BIS system (Business Intelligence Services system). The BIS system contains numerous KPI reports both for the area of finance and controlling and for all operational areas that can be accessed daily.

The extensive monthly management reporting package is one of the most important reporting tools in the area of finance. As part of the standardized Group-wide reporting, all HUGO BOSS companies supply detailed information on the most important line items of the statement of financial position and the income statement together with KPIs and explanations. In this process, the central finance department sets binding deadlines and content for reporting. Automated and standardized reporting formats are in place for many reporting topics. The central finance and controlling departments have content responsibility in this area. Related tasks include central maintenance of master data for the chart of accounts applicable throughout the Group as well as the continuous review of reporting formats with respect to their observance of the latest applicable international financial reporting requirements. In addition, checks are performed at regular intervals to verify whether business transactions at HUGO BOSS are recorded consistently and corrections made if deviations are detected.

In order to prevent unauthorized access to data of relevance to financial reporting and to ensure the integrity, availability and authenticity of data at all times, the SAP Security Policy (a component of the IT security guideline) was implemented Group-wide. This policy also contains requirements for controls designed to ensure a properly functioning finance organization. The IT security of the accounting-related processes is supplemented
by system-enabled controls and workflow-based processes that impose the dual-control principle, suitable segregation of functions and approval processes. This includes invoice verification and approval, the sourcing processes or SAP authorization management.

In addition, the user rights required by employees are defined using roles which describe jobs or positions in the Group. Since 2009, HUGO BOSS has been using a special detection software without exceptions to ensure an appropriate segregation of functions in SAP systems. This compares a user’s authorization profile with a pre-installed SoD (segregation of duties) model. Group-wide authorization management and the definition of roles are likewise performed in the central IT departments of HUGO BOSS AG in Metzingen.

All companies of the HUGO BOSS Group are legally independent entities. Apart from the managing director, who is responsible for business operations in the respective market, the finance manager is responsible for all issues of relevance to the company’s financial reporting. The finance manager is also responsible for continuous monitoring of key management indicators, monthly reporting of KPIs to the central finance reporting and the preparation of a three-year plan for the respective market. In addition, the feasibility and viability of new investment projects, particularly in the Group’s own retail business, have to be analyzed and also coordinated with the controlling department at HUGO BOSS AG.

In his capacity as technical supervisor of all finance managers, the CFO of HUGO BOSS AG is authorized to issue directives on and is thus responsible for the Group-wide financial management.

The finance managers and the managing directors of the HUGO BOSS companies confirm on a quarterly basis compliance with defined principles and the execution of management controls through what is referred to as a CFO certificate. Some of these controls are integrated in the ERP software deployed throughout the Group. Reports also have to be submitted regarding the appropriateness of controls for ensuring data integrity and data access protection as well as in the event of fraud or serious infringements of the internal control system.

In addition to providing active support to all divisions and Group companies, the central finance department in Metzingen is responsible for preparing and revising uniform guidelines and instructions for accounting-related processes. This mainly encompasses the preparation and revision of the bad debt allowance policy, an investment guideline, the IAS/IFRS accounting manual and clear intercompany reconciliation requirements.
Questions on specific accounting and valuation matters of relevance to the HUGO BOSS Group are likewise dealt with centrally, where they are analyzed, documented and communicated to the “HUGO BOSS financial community”. In addition, a central e-mail address provides staff the option to address open issues in a timely manner to the central finance and controlling department. Significant accounting and valuation matters and changes to relevant IAS/IFRS and Interpretations are discussed with the auditors of the consolidated financial statements in regular meetings held at least on a quarterly basis. Professional development events are organized at regular intervals, while updates on topics of relevance for financial reporting are communicated in an accounting newsletter and posted in the Finance Forum on the Group’s intranet. A financial college provides training to junior employees of the finance and controlling departments. Once a year, the finance managers meet at the finance managers’ meeting.

The internal audit function is part of the system of internal control and in its oversight function reviews compliance with and the effectiveness of the defined controls. The annual audit plan and its areas of focus are discussed with the Managing Board and Audit Committee. Ad hoc audits can be performed at any time. All audit reports are submitted directly to the CFO and, if necessary, to the Managing Board as a whole. In addition, the internal audit function reports regularly to the Audit Committee.

ADDITIONAL INFORMATION ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO HGB OF HUGO BOSS AG

As the parent company of the HUGO BOSS Group, HUGO BOSS AG is integrated in the Group-wide accounting-related system of internal control and risk management described above. The above disclosures also generally apply to the separate financial statements pursuant to HGB of HUGO BOSS AG.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). If necessary – for instance, for purposes relating to the separate financial statements pursuant to HGB or for tax purposes – reconciliations are made to the respective requirements on account level. This means that specific information contained in the IFRS consolidated financial statements also constitutes a significant basis for the separate financial statements of HUGO BOSS AG. At HUGO BOSS AG, the conceptual framework above is supplemented by a mandatory HGB accounting manual and HGB chart of accounts.

OPPORTUNITIES REPORT

Systematically identifying and capturing value-enhancing business opportunities is a key element of efforts to ensure that the Company grows profitably.
Due to its direct link to the targets and strategy of the respective business divisions, responsibility for identifying, assessing and capturing opportunities lies with the operational management in the regions, individual markets and central functions. In this context, opportunities are always considered in conjunction with any associated risks. They are only pursued if they outweigh the associated risk and if the risk is assessed to be manageable and its potential consequences limited.

Short-term opportunities – in the sense of potential, positive deviations from the planned operating result (EBIT) – in the current fiscal year are centrally compiled at regular intervals. Long-term opportunities management is directly linked to corporate planning. Opportunities identified and evaluated based on their contribution to the enterprise value are factored into the annual budget and long-term strategy planning. In this process, the Managing Board, in consultation with operational units, makes decisions regarding their realization and allocates the resources needed.

HUGO BOSS has identified the following key opportunities that stem from the Company’s environment and its strategy.

**EXTERNAL OPPORTUNITIES**

Economic conditions in its sales markets influence the Group’s growth prospects. As a company operating in the consumer goods industry, HUGO BOSS can benefit directly from favorable macroeconomic developments and their effect on consumer confidence and customers’ buying behavior.

Regulatory and legal changes can potentially have a positive impact on sales and the Company’s profitability. A reduction of import duties or tax cuts, for instance, can improve the Company’s competitive position compared to local competition.

**STRATEGIC AND OPERATIONAL OPPORTUNITIES**

Industry experts anticipate robust growth worldwide in the premium and luxury goods market. Indeed, some analysts project that by 2025 about 600 million more people will have the purchasing power to buy premium and luxury goods compared to today. Substantial growth is expected in emerging countries in particular, driven by rising income levels and the high share of total disposable income dedicated to consumption compared to other parts of the world. Given the positioning of its brands in the premium and luxury segment, the Group sees itself in an ideal position to profit from these developments. The Group is moving to capture the identified growth potential using market entry and market penetration strategies specifically tailored to individual countries. It is also systematically reinforcing its distribution activities in metropolitan areas, particularly in Europe, to create an attractive offering for the tourist segment, an area of growing commercial importance.
Growing interest in fashion among men

In recent years, interest in fashionable clothing has grown considerably, particularly among younger men. More and more men are paying increasing attention to fashionable appearance as a means of expressing their personality or standing out from the crowd. Clothing is also increasingly considered an important determinant of how an individual’s competence in the workplace is perceived by others. HUGO BOSS’ brand commitment to offer fashionable and stylish clothing of outstanding quality addresses these needs very effectively, so that the Group sees excellent opportunities to benefit from the growing fashion sense of men worldwide.

Changing shopping habits and lifestyles

The rapid technological progress seen in last 15 years, and particularly the quantum leap in the importance of the Internet, has radically changed the shopping habits and lifestyles of consumers. HUGO BOSS sees this change as an opportunity. With the expansion and continuous improvement of its online stores, the Group addresses the expectations of consumers with respect to product presentation, selection and service. Close integration of the online offering with bricks-and-mortar retail also affords good opportunities to offer comfortable and efficient shopping solutions to its core target group – men and women who are successful in their professions and private lives and who are on tight schedules. At the same time, the Group uses digital media to strengthen perception of its brands and charge them emotionally.

Growing need for individuality

The Group addresses its customers’ growing need for individuality both in its brand strategy and in its distribution strategy. By building up and regionally extending its Made to Measure offering, the Group can offer to a growing number of interested consumers the option of wearing individually modified and tailored products with which they can stand out from the crowd. The exclusivity of this offering is also conveyed in the shopping experience, with dedicated sales floor space specially designed for this purpose. The Company also sees good opportunities for forging stronger ties between consumers and HUGO BOSS and encouraging the brand loyalty of customers by reaching out to them individually as part of systematic customer relationship management in the form of telephone calls, personal mailshots or newsletters.

Brand portfolio allows targeting of differentiated customer segments

HUGO BOSS believes it has an outstanding position in the global apparel market. The Group’s brands stand for excellent quality, outstanding workmanship and modern design. With its brands, the Group reaches out to a wide public across the entire spectrum of the premium and luxury fashion market – from the avant-garde HUGO brand and the modern, sophisticated BOSS offering to the lifestyle brand BOSS Orange. By integrating BOSS Selection into the BOSS core brand, the Group has significantly strengthened its offering in the luxury segment. With this move, the Groups hopes to create better opportunities to tap sales potential and form stronger ties with existing customers while securing their loyalty to the brand through all stages of their lives.
HUGO BOSS is the market leader in many market segments and regions, particularly in the premium menswear market. However, its penetration in the womenswear segment is significantly lower in most markets. As a result, the Group sees substantial potential in this business segment and is working intensively to successfully implement its strategy designed to grow its market share. Manpower in the business area was strengthened through the appointment of Jason Wu as Artistic Director. In addition, the profile of womenswear in the Group’s own retail stores was raised, particularly in flagship stores. Perception of the womenswear range is also supported by the expansion of brand communication activities. Closely related to its core competence in apparel, the shoes and accessories product category is another area in which HUGO BOSS has identified good growth opportunities.

In recent years, HUGO BOSS has increasingly realigned its distribution activities towards end consumers and significantly increased the share of sales generated with its own retail business. With the expansion of its own store network, the Company is tapping additional sales potential, both in established and emerging markets. In addition, HUGO BOSS is increasingly taking the opportunity of directly operating mono-brand shop-in-shops at wholesale partners. Complete control over how the point of sale is designed allows improvements in the quality of presentation, thereby increasing perceived quality of the product range. At the same time, the Company is gaining insights into its customers’ needs first hand. In view of the growing importance of the distribution channel, the Group is working hard to systematically increase its retail competence.

HUGO BOSS is addressing the growing importance of its own retail business by optimizing critical operational processes. This puts the Group in a position to cater more effectively to the needs of end consumers and respond more quickly than ever before to market changes. In this context, the focus in fiscal year 2014 is on the start of operations of the new flat-packed goods distribution center and the associated closer systematic integration of the supply chain in a move to accelerate and raise the efficiency of merchandise flows in Europe. The Group continues to see substantial opportunities to generate positive effects on sales and earnings over the coming years through the continuous optimization of processes. For instance, the Group is intensively working on increasing the use of virtualization technology in specific phases of the product development process to generate time and cost advantages.

**FINANCIAL OPPORTUNITIES**

Favorable exchange rate and interest developments can potentially have a positive impact on the development of the Group’s earnings. The Group continually analyzes the market environment in order to identify and benefit from opportunities in this area.

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**Exchange rate and interest fluctuations can buoy the development of earnings**

**Process improvements tap additional sales and earnings potential**

**Growing retail expertise creates new growth opportunities**

**Growth opportunities in product categories with relatively low market penetration**