COMBINED MANAGEMENT REPORT
GROUP PROFILE

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**BUSINESS ACTIVITIES AND GROUP STRUCTURE**

**HUGO BOSS** strives to strengthen and grow its position as one of the market leaders in the premium and luxury segment of the global apparel market. Headquartered in Metzingen, Germany, and with just under 13,000 employees, the Group generated sales of EUR 2.6 billion in fiscal year 2014 and is one of the most profitable listed apparel manufacturers in the world.

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

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

HUGO BOSS sources roughly 20% of its procurement volume internally. In addition, products are manufactured by independent suppliers that are mainly located in Eastern Europe and Asia. The Group sells its collections in 130 countries around the world. The Group’s sales regions are Europe (61% of sales), the Americas (23% of sales) and Asia/Pacific (14% of sales). In addition, 2% of sales are generated from licenses.
sales in fiscal year 2014. Wholesale partners include department stores, specialist retailers, which are frequently family-run, franchise partners and, to a lesser extent, specialist online retailers. Department stores and specialist retailers sell HUGO BOSS products either in separate shop-in-shops or in a multibrand setting. Franchise partners operate freestanding HUGO BOSS stores in accordance with the Group’s specifications and particularly operate in small markets not addressed by the Group’s own retail business. In total, HUGO BOSS products can be bought at around 7,600 wholesale points of sale.

Economic Situation and Industry Development

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<thead>
<tr>
<th>Group’s own retail business</th>
<th>Wholesale</th>
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<tr>
<td>Freestanding stores: Freestanding stores operated by the Group in prime locations</td>
<td>Shop-in-shops: HUGO BOSS shops operated by wholesale partners</td>
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<tr>
<td>Shop-in-shops: Shops operated by the Group on retail space of partners</td>
<td>Multi-brand points of sale: Category business on selling space with only limited own branding</td>
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<td>Factory outlets: Sale of prior season’s merchandise in specialist stores in high-traffic peripheral zones</td>
<td>Franchise business: Freestanding HUGO BOSS stores operated by partners</td>
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<tr>
<td>E-commerce: HUGO BOSS online stores in a number of different countries around the globe</td>
<td>Online: Online distribution through specialist online stores</td>
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The HUGO BOSS Group is managed by the parent company HUGO BOSS AG, based in Metzingen, Germany, where all of the Group management functions are bundled. As a German stock corporation, HUGO BOSS AG has a dual management and control structure. The Managing Board is responsible for the Group’s strategy and its management. The Supervisory Board advises the Managing Board and oversees its management activities. Apart from HUGO BOSS AG, the Group comprises 55 consolidated subsidiaries that are responsible for local business activities. Of these, 35 are organized as distribution companies. With few exceptions, HUGO BOSS AG has complete control over all subsidiaries. All subsidiaries are operated as independent profit centers and are responsible for their results of operations.

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

AMERICAS

- USA, Cleveland
  - Production
- USA, New York
  - Headquarters Americas, Designstudio Womenswear
- USA, Midway
  - Warehouse

~ 1,750 Points of sale
204 Own retail stores
2 Showrooms
KEY LOCATIONS/GLOBAL MARKET PRESENCE

~ 500
Points of sale

242
Own retail stores

1
Showroom

GERMANY, METZINGEN AND SURROUNDING AREAS
Headquarters Group and Europe, development and pattern design, production, warehouse

POLAND, RADOM
Production

EUROPE
(including Middle East and Africa)

TURKEY, IZMIR
Production

ITALY, MORROVALE AND SCANDICCI
Development and pattern design, production

SWITZERLAND, COLDREIRO
Development and pattern design

ASIA / PACIFIC

HONG KONG
Headquarters Asia / Pacific

~ 5,350
Points of sale

595
Own retail stores

16
Showrooms
GROUP MANAGEMENT

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

GROUP MANAGEMENT FOCUSES ON PROFITABLE GROWTH

The HUGO BOSS Group is helmed by the Managing Board, which sets the Group’s strategic direction in particular. Operational implementation of the Group strategy takes place in close cooperation with the regional and brand directors and the heads of the central functions. The organizational and management structure clearly allocates areas of authority and responsibility and defines reporting lines, so that all corporate resources are focused on sustainably increasing the enterprise value.

KEY PERFORMANCE INDICATORS

To increase the enterprise value, the Group focuses on maximizing free cash flow over the long term. Maintaining positive free cash flow on a lasting basis secures the Group’s financial independence and its solvency at all times. Increasing sales and operating income, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items, are the main levers for improving free cash flow. Strict management of trade net working capital and value-oriented investment activities also support the development of free cash flow.
Cash flow from operating activities + Cash flow from investing activities = FREE CASH FLOW

As a growth-oriented company, HUGO BOSS attaches particular importance to profitably increasing its sales. All activities to raise sales are gauged by their potential to generate an increase in adjusted EBITDA and the adjusted EBITDA margin (ratio of earnings to sales) before special items in the long term. EBITDA was chosen as the most important performance indicator as it is a key driver of free cash flow. Productivity increases in the Group’s own retail business are seen as the main lever for increasing the EBITDA margin. In addition, the Group enhances the efficiency of its sourcing and production activities and optimizes its operating expenses to ensure that they do not outpace sales growth.

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

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

Inventories + Trade receivables − Trade payables = TRADE NET WORKING CAPITAL

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

| 02|07 DEVELOPMENT OF KEY PERFORMANCE INDICATORS (in EUR million) | 2014 | 2013 | Change in % |
|------------------------------|-------|-------|------------|
| Sales                        | 2,571.6 | 2,432.1 | 6          |
| EBITDA before special items  | 590.8  | 564.7  | 5          |
| Trade net working capital    | 503.9  | 431.8  | 16         |
| Capital expenditure          | 134.7  | 185.3  | (27)       |
| Free cash flow               | 268.4  | 230.0  | 17         |

The free cash flow generated by the Group is primarily used to finance the dividend distribution. The Group’s dividend policy provides for 60 - 80% of the Group’s net income to be distributed to the shareholders. Any liquidity available over and above this is used to further reduce financial liabilities or retained as a cash reserve. The Group analyzes its balance sheet structure at least once a year to determine its efficiency and ability to support future growth and to simultaneously provide sufficient security in the event that business performance falls short of expectations. In addition to net financial liabilities, this analysis also takes account of future rental obligations.

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

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

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

Based on the Managing Board’s targets, the distribution companies prepare complete earnings and investment budgets for their respective sales markets or business units. A similar planning model is used for trade net working capital. Taking this as a basis, the development and sourcing units derive medium-term capacity planning. The planning of the business units is centrally tested for plausibility and aggregated into overall corporate planning.
Annual planning is updated at regular intervals to factor in the actual development of business and the existing opportunities and risks in order to allow a forecast of the consolidated earnings that can be expected in the current year. Based on the expected development of cash flow, the Group’s Treasury department prepares a monthly liquidity forecast. This permits early recognition of financial risks and the adoption of measures concerning financing and investment requirements. In addition, liquidity planning differentiated by currency is used as a basis for currency hedging, among other things. → Report on Risks and Opportunities.

Financial Risks

The Managing Board and management of Group subsidiaries are informed about the development of business operations through standardized, IT-enabled reports of varying granularity. This reporting system is supplemented by ad hoc analyses as necessary. Actual data compiled by the Group-wide reporting system are compared against budget data each month. Deviations from target must be explained and planned countermeasures presented. Developments with a material impact on the Group’s earnings have to be immediately reported to the Managing Board. In addition, particular attention is paid to the analysis of early indicators deemed suitable for obtaining an indication of the future development of business. In this context, order intake, the performance of the replenishment business and retail comp store sales are analyzed at least on a weekly basis. In addition, benchmarking against relevant competitors is performed at regular intervals.

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

HUGO BOSS has set itself the goal of growing strongly and improving its profitability. The basis for this is the Group’s core competence – the development and marketing of high-quality apparel as well as shoes and accessories in the premium and luxury segment. Thanks to its industrial scale and strength, HUGO BOSS offers its customers an attractive range of products characterized by consistently advantageous value for money compared with the competition. In 2014, the Group enhanced its proven strategy, defining new focal points. The Group’s strategy aims at elevating the core BOSS brand, expanding its market position in womenswear, developing the Group’s own retail business, achieving global growth and maximizing operational strength.

The Group’s successful business performance over the past few years underscores the strength of HUGO BOSS’ business model. On this basis, the Group is striving for average sales growth in the high single digits until 2020. The operating margin is to be increased to 25% over the same period. The planned increase in earnings, together with the strict management of trade net working capital as well as disciplined capital spending, will form the basis for the planned maximization of free cash flow. In this way, the Group’s enterprise value will continue to grow. In addition, shareholders participate in the Group’s success via the earnings-oriented dividend policy. ➔ Group Management

HUGO BOSS has identified five levers for ensuring profitable growth. The BOSS core brand is to be enhanced by means of product, distribution and communication measures. The brand strength, which has its roots in menswear, is to be leveraged to a greater extent than before in womenswear, including shoes and accessories. The expansion of omnichannel offerings will spur continued growth in the Group’s own retail business in both the online and offline segment. Finally, the Group is seeking a stronger regional balance than before and plans to generate a greater volume of sales outside its European home market in the medium term. Building on the Group’s operational strengths, particularly supply chain management, the product development process and the IT and logistics infrastructure, will provide substantial support to the implementation of the various growth initiatives.
ELEVATION OF THE BOSS CORE BRAND

The Group reaches out to consumers with BOSS, by far its largest single brand, as well as HUGO. Whereas the BOSS core brand epitomizes authentic, understated luxury, HUGO is the fashion spearhead, featuring progressive looks and a modern, urban attitude. The BOSS core brand is flanked by the brand lines BOSS Orange and BOSS Green. BOSS Orange is synonymous with urban casualwear, reflecting a laid-back approach to life. BOSS Green is the active HUGO BOSS sportswear line, transcending the border between fashionable leisurewear and performance golf apparel. With its brand portfolio, HUGO BOSS is able to respond to the diverse requirements of different target groups, creating offerings for different occasions to wear.
HUGO BOSS sees significant growth potential in the expansion of its luxury offering, which complements the strong positioning in the premium segment it has obtained over the years. With this in mind, it is working on enhancements to its BOSS core brand, particularly in markets in which the brand has historically been perceived predominantly in a multibrand setting and via its entry-price products. Consequently, HUGO BOSS offers its customers a globally consistent brand image and a comprehensive range extending up into the high-end segment in terms of both style and price. The Group assumes that BOSS brand sales in the luxury segment will more or less double to around 20% by 2020. At the same time, BOSS is gradually withdrawing from the entry-price segment, which will in future be addressed by HUGO and BOSS Green in particular.

BOSS is reinforcing its luxury offerings across the full breadth of its product portfolio. Under BOSS Tailored, BOSS offers unique cuts, fabrics of the highest quality and exquisite designs. The expansion of the range of Made to Measure suits and shirts underscores the Group’s competence in high-quality tailoring. In the sportswear segment, which will be harmonized even more closely with the tailoring segment in future, BOSS is also increasingly positioned at the leading edge of fashion.

The enhancement of the BOSS brand is also reflected in the Group’s distribution activities. Looking forward, the core brand will be given even more space at the Group’s own stores compared with the other brand concepts. Building on the exclusive setting and the quality of advice and service provided, a growing number of the Group’s own stores will in future offer the BOSS brand exclusively. In wholesale as well, the Group is intensifying its control of the brand by requiring its partners to distribute the BOSS core brand solely in a mono-brand setting, i.e. in shop-in-shops, in future. These shop-in-shops will be operated either by the partner or by the Group itself in the form of a concession model. In category business, retail partners will in future be offered HUGO in the tailoring segment and BOSS Green in the sportswear segment.

The reputation of the BOSS core brand shapes the overall perception of the brand portfolio as a whole. For this reason, the Group is focusing brand communications even more intensively on its core brand than in the past. In communicating its brand message of inspiring people to success, the Group is primarily using its historical strength in tailoring. In this way HUGO BOSS is honing the way in which it is perceived by end consumers and generating strong brand recognition. In addition to traditional print advertising (in which creative input has been raised to a new level in the case of womenswear in particular), retail marketing activities centering on the now larger flagship store portfolio, fashion shows and sponsoring, digital communication formats are now also playing an increasingly important role. Using attractive content, HUGO BOSS is progressively strengthening customer ties at an emotional level and broadening its reach through the use of digital networks.
LEVERAGE OF BRAND POTENTIAL IN WOMENSWEAR

The Group has identified good opportunities to expand its position in the womenswear market and repeat the success it has achieved with menswear. HUGO BOSS assumes that it will be able to increase the share of sales contributed by womenswear to at least 15% by 2020 (2014: 11%). The market relevant to HUGO BOSS is even larger in the womenswear segment than it is in menswear. At the same time, the Group holds a significantly smaller share of the womenswear market despite the solid growth of the last few years. However, substantial fragmentation and customers’ greater willingness to change to other brands offer HUGO BOSS attractive new possibilities for reaching new groups of buyers. Despite the intensive competition, especially for shoes and accessories, the Group therefore considers itself to be ideally positioned to play a more prominent role in womenswear in the future, particularly in the apparel segment.

HUGO BOSS achieved significant success in womenswear in 2014. This was underpinned by the establishment of a separate organizational structure and the appointment of Jason Wu, one of the world’s greatest design talents in premium womenswear, to the position of Artistic Director BOSS Woman. The two collections presented by Jason Wu last year had an unmistakable design signature, which will continue to define BOSS womenswear in the future. The impressive fashion shows during New York Fashion Week and the resulting media response ensured a significant improvement in terms of brand awareness and perception, which was reflected in double-digit sales growth in 2014.

BOSS is seeking to further enhance its range of products. By raising the fashion level and offering sophisticated products, BOSS aims to heighten the brand’s emotionality and relevance as a means of boosting its desirability. In this respect, the strengthening of the shoe and accessory range plays an important role in efforts to sharpen the brand core and forge closer links between the individual collections.

At the same time, the Group is reinforcing the visibility of womenswear in its own retail business. In particular, it is being given a more prominent position in the new stores, which tend to be larger, and often occupies around one-third of the floorspace. With the introduction of global look concepts, great importance is being attached to standardized presentation worldwide. In addition, intensive training for sales personnel reflects the exceptional importance that quality of service has in this segment in particular. The development of a special store concept also aims to optimally address female customers’ needs.

Finally, HUGO BOSS is intensifying its communication activities to make BOSS Woman more attractive to fashion-conscious consumers. In this context, a strong focus is being placed on celebrity outfitting. Fashion shows held during New York Fashion Week, campaigns and PR activities also serve to communicate the unmistakable brand core and establish BOSS as a fashion authority.
GROWTH OF THE GROUP’S OWN RETAIL BUSINESS ONLINE AND OFFLINE VIA OMNICHANNEL OFFERINGS

Over the past few years, HUGO BOSS has comprehensively realigned its business model with the requirements of the Group’s own retail business. By enlarging this distribution channel, the Group is able to present and sell its brands and collections to optimum effect without relinquishing its established wholesale business. HUGO BOSS is responding to growing customer expectations of seamless cross-channel shopping and brand experiences by stepping up its omnichannel activities. 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 75% by 2020 (2014: 57%).

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Further expansion of store network
The Group sees good opportunities to increase its global market penetration by opening new stores and shop-in-shops. In this connection, the main focus will be on expanding the portfolio in metropolitan regions, which account for the bulk of the global luxury goods business. Although the rate of expansion will gradually slow compared with earlier years, the Group now sees the possibility of profitably operating larger stores than in the past due to the breadth and quality of its offerings. In addition, it is increasingly making use of opportunities to renovate and/or expand successful stores to further improve their economic performance.

Takeovers remain an important growth driver
In addition to opening new stores, the Group is also considering the takeover of stores that are currently operated by franchise partners, depending on the attractiveness and growth prospects of the relevant market. Independent management of shop-in-shops currently run by wholesale partners is another means of enhancing the attractiveness of the brand presentation and tapping additional sales and earnings potential. The Group believes it can
significantly increase the sales productivity of the stores it takes over by autonomously selecting the product range, using its own specially trained sales personnel and assuming responsibility for replenishment.

02|11 OMNICHANNEL APPROACH

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<th>MULTICHLANL</th>
<th>CROSS CHANNEL</th>
<th>OMNICHANNEL</th>
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<tbody>
<tr>
<td>One touch point</td>
<td>Consumers experience multiple channels acting independently</td>
<td>Consumers experience multiple channels as part of the same brand</td>
<td>Consumers experience a brand, not a channel within a brand</td>
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Over the last few years, HUGO BOSS has boosted its sales significantly in both physical retail and online business. Moving forward, it will create closer links between these two channels to offer consumers a seamless, integrated brand and shopping experience. In a first step, HUGO BOSS acquired the online store front end from its former fulfillment partner at the beginning of 2014. Following on from this, it completely overhauled the hugoboss.com website and integrated the online store and brand world in the same year. In 2015, new features will be gradually introduced to further improve the online experience and user-friendliness of the store, so that a digital flagship store is created. In addition, the Group is investing in cross-channel customer relationship management in order to address consumers personally and on a targeted basis. Finally, the acquisition of crucial elements of the e-commerce value chain, particularly in the IT and logistics areas, at the beginning of 2016 will make it possible to offer omnichannel services such as “Click & Collect”.

Expansion of omni-channel offerings driving online and offline sales growth

Wholesale still an important distribution channel despite declining proportion of sales

Based on its customer relationships in the premium and luxury apparel segment, which it has built over decades, and its brand attractiveness, the Group is confident it can continue to offer its department store partners a convincing product range, best-in-class service and a high level of supplier reliability, and increase its market share in the process. In addition, the Group is expanding its business with specialist online retailers committed to high-quality brand presentation to leverage penetration advantages and to obtain access to new consumer groups. However, takeovers will exert pressure on wholesale sales. Moreover, HUGO BOSS assumes that business with specialist stores, which are frequently owner-run, will contract. In sum, it therefore expects a decline in the proportion of Group sales contributed by wholesale.
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 Group sees substantial opportunities for commercially exploiting this brand perception in the coming years more 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 continue to expand its own retail business in particular. Overall, the proportion of non-European sales is expected to widen in the medium term.

Transformation of the business model the key to continued growth in Europe

However, Europe will remain the Group’s largest sales market. To this end, the Group is advancing the process-related, organizational and cultural transformation of its business model aimed at strengthening own retail. By expanding its own retail business, it is strengthening the homogeneity and perceived value of its global brand image and raising its appeal for local consumers as well as the growing number of non-European customers who visit the region as tourists. In addition, HUGO BOSS is increasingly managing wholesale space itself. Comprehensive process changes particularly in the areas of merchandise management, retail operations and customer service are additionally strengthening the organization’s retail competence. This has allowed the Group to generate growth that outstrips the sector average in many markets. Apart from expanding its market position in traditional core markets such as Germany, Great Britain, France and the Benelux countries, the Group sees attractive growth opportunities in Eastern Europe including Russia and in the Middle East.

Global brand awareness offers growth opportunities

HUGO BOSS enjoys a sturdy market position in the Americas. It is primarily anchored in a favorable perception shaped by associations with the European lifestyle. In addition to a modern design characterized by slim cuts, HUGO BOSS is seen as possessing a high

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¹Including Middle East and Africa.
degree of reliability with respect to fit and quality as well as an attractive value proposition. HUGO BOSS wants to increasingly also take advantage of these strengths in the parts of its portfolio that have previously had a less profiled presence, such as the luxury segment or womenswear. Womenswear should benefit in particular from the huge reputation that the new Artistic Director, Jason Wu, has in the region. In the Group’s own retail business, the focus is on selective new openings, process optimization and improvements to the shopping experience. In its wholesale business the Group is concentrating on strengthening the partnerships with retailers in the premium market segment to optimize its brand presentation and reduce discounting. The introduction of shop-in-shop formats, some of which are run directly by the Group, is an important tool in this respect.

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. Notwithstanding the challenging market situation currently prevailing in China, the Group 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. Process improvements, the expansion of training activities and the implementation of structured IT-based customer relationship management also serve to improve the shopping experience. The full takeover of the previous “joint venture” activities in 2014 is also aiding the consistency of the brand presence. In its communication activities, HUGO BOSS stresses the brand’s heritage in menswear clothing, which accounts for a substantially lower proportion of sales in Asia than it does in other regions. Thus, a mobile exhibition, which is displayed in various luxury shopping malls, showcases the brand’s competence in high-quality menswear. In addition, further potential has been identified in luxury sportswear and womenswear, which is targeted at the fast-growing group of fashion-conscious professional women.

**FURTHER BUILDING OPERATIONAL STRENGTH**

The fundamental principle followed by the Group is to keep control over all business-critical processes. High-performance operational processes allow the Group 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 of gaining a competitive edge by swift reaction to market changes, an advantageous value-for-money proposition and high supply reliability. The Group is continuing to focus on optimizing operational processes in line with the requirements of its own retail business.
HUGO BOSS has closely integrated the product design and development process with industrial manufacturing and sourcing. By using its own production facilities, the Group secures critical expertise 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. → Sourcing and Production

A high-performance SAP-based IT infrastructure uniformly deployed worldwide supports the operational processes of all functions effectively and creates the transparency needed for making entrepreneurial decisions. Currently, the Group is particularly working on rolling out two new systems for improving retail management. The retail merchandise planning (RMP) system provides a fully integrated view of stock flows in the Group’s own retail business, thus permitting system-based planning oriented to the demand of end consumers. The system is currently being rolled out. The retail assortment planning (RAP) system optimizes the range available in the Group’s own retail business based on the capacity of individual stores, the characteristics of the location in question and the individual product life cycle. It will be used for the first time with the development of the 2016 Fall collection.

A powerful logistics infrastructure ensures timely and accurate delivery to the Group’s own points of sale as well as wholesale partners. In the past few years, the Group has taken great efforts to optimize its logistics processes in line with the transformation of its business model. The single most important measure in this context was the construction of a new flat-packed goods distribution center near the Group’s headquarters in 2014. In this way, the Group is able to speed up the merchandise supply process and improve the efficiency of critical handling processes through extensive automation and the provision of additional services.
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 business fashions, exclusive leisurewear and glamorous evening apparel fuses skilfully styled 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 leisure- and sportswear for newborns, children and young adults. Featuring high-quality fabrics and beautiful details, the collections offer a full range, extending from fashionable leisure looks to elegant ensembles for formal occasions.
BOSS Green is the sports lifestyle line from HUGO BOSS that transcends the boundary between stylish leisurewear and performance golf apparel. Positioned in the premium segment, the collection links fashion, lifestyle and functionality – and presents 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.
As the fashion spearhead within the HUGO BOSS world, HUGO stands for progressive looks and an edgy, urban attitude. The brand offers contemporary design trends for both business and leisure. The women’s and men’s collections consistently set self-confident, stylish accents; shoes, accessories and licensed fragrances round out the ranges.
EMPLOYEES

The work of the almost 13,000 employees of the HUGO BOSS Group worldwide is the basis of the Group’s success. The skills of the employees and their passion for fashion find their expression in unmistakable products. The central aim of personnel work in the HUGO BOSS Group is to foster team spirit and the motivation of employees in an international environment, while creating a culture of openness and creativity that allows each and every individual to realize their full potential. HUGO BOSS’ corporate values of quality, passion, respect, cooperation and innovation provide the cornerstones of this work.

The mission statement “HUGO BOSS inspires people towards success” is founded on the five corporate values of quality, passion, respect, cooperation and innovation. These values shape employees’ daily work with each other and reflect the corporate culture of the HUGO BOSS Group. Human resources management at the Group aims to breathe life into the values underpinning the mission statement. Last year, for example, a communications platform was established to encourage an innovative mindset, allowing employees to share ideas and suggestions for improving their day-to-day routines. The best ideas received awards and were put into practice. In addition, employees at all management levels across the Group drew up principles of leadership that are based on the five corporate values and ensure that the mission statement is firmly anchored in the management culture.

The aim of personnel work at HUGO BOSS is to attract the right people to the Group, retain them over the long term and systematically support their development so that they can reach their full potential. A range of inspiring and challenging tasks helps ensure that each individual contributes as best they can, thereby fostering the long-term success of the Group. To ensure this, it is very important to the Group to find out how individual employees view their employer, their working conditions and the duties assigned to them. An anonymous survey was therefore carried out among the employees of HUGO BOSS AG last year for the first time. The participation rate of around 70% reflects the strong commitment of the workforce, and the overall satisfaction score of almost 80% confirms the appeal that HUGO BOSS has as an employer. The findings of the survey will be used in the coming fiscal year to implement measures aimed at further increasing satisfaction, and the success of these activities will be measured in annual staff surveys.

The employer branding campaign that HUGO BOSS launched in 2013 to position itself as an attractive employer in the market was continued and enhanced in the last fiscal year. This is reflected in the extensively overhauled careers website and the introduction of a new applicant management system. With its extended functionality, greater focus on internationality, intuitive structure and uniform visual and verbal language, HUGO BOSS’ careers website offers job applicants a coherent and attractive first point of contact with the Group.
Another focus of personnel work last year was on aligning human resources with the Group’s strategic focus on its own retail business. A manual for personnel management at the Group’s own stores was released at all subsidiaries to standardize staff recruitment, development and motivation processes. Last year, the Group also started implementing a system at its own stores for optimizing personnel resource planning on the basis of historical data. This makes it possible to ensure that the ideal number of employees with the necessary qualifications are available on the shop floor at all times and that the applicable requirements under labor law are also observed.

The number of employees in the HUGO BOSS Group increased again in 2014. At the end of fiscal year 2014, HUGO BOSS had 12,990 employees. This is an increase of 494 employees or 4% compared with the prior year (2013: 12,496 employees).

The rise is attributable to positive business performance and the associated increase in demand for staff, particularly in the Group’s own retail business. The number of employees in the Group’s own retail business rose to 4,965 last year (2013: 4,759). The majority of new employees in this segment were hired in Europe, where the expansion of the Group’s own retail business was stepped up partly through the takeover of shop-in-shop units from wholesale partners.  

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>12,990</td>
</tr>
<tr>
<td>2013</td>
<td>12,496</td>
</tr>
<tr>
<td>2012</td>
<td>11,852</td>
</tr>
<tr>
<td>2011</td>
<td>11,004</td>
</tr>
<tr>
<td>2010</td>
<td>9,944</td>
</tr>
</tbody>
</table>

Group Strategy
As a consequence, the relation between employees in commercial positions and employees in industrial functions remained unchanged. At year-end 2014, 8,562 employees or 66% of the workforce (2013: 8,262) were assigned to commercial and administrative positions and 4,428 employees or 34% of the total workforce (2013: 4,234) to industrial activities. 

Notes to the Consolidated Financial Statements, Note 10

Internationality, openness and diversity shape the corporate culture at HUGO BOSS. This is reflected in the regional distribution of the workforce. 81% of the Group’s employees work outside Germany (2013: 80%).

Increasingly international workforce
The share of women in the HUGO BOSS Group as a whole stands at 60% (2013: 60%). In management, i.e. across all management levels, 45% of all positions were held by women at the end of December 2014 (2013: 46%). As a result, the Group complies with the recommendation of the German Corporate Governance Code according to which the Managing Board should ensure there is an adequate number of women in management positions. → Corporate Governance Report

HUGO BOSS invests in the vocational training of young people in order to secure its need for skilled professionals in the long run. The Group offers a broad spectrum of industrial/technical and commercial apprenticeships as well as combined degree and vocational training courses in collaboration with Baden-Württemberg Cooperative State University (DHBW). During the apprenticeship period, the Group considers it very important that general and specialized training and development opportunities are provided, for example by offering Cooperative State University students international assignments to a subsidiary abroad.

The number of apprentices and Cooperative State University students passed the 100 mark again last year (2014: 101; 2013: 101). In 2014, 31 apprentices and Cooperative State University students successfully completed their apprenticeship or degree. At the same time, 34 new apprentices and students began their course.

HUGO BOSS positions itself clearly in the market as an attractive employer for young people. In order to identify and attract talent at an early stage, the Group cooperates closely with universities in Germany and abroad.
HUGO BOSS stays in touch with high school and college students through numerous company presentations and workshops, tours of the headquarters in Metzingen and presentations by employees of various departments at universities. In 2014, the Group established a cooperation with Parsons The New School for Design in New York, for example. It also holds close contact with the Central Saint Martins College of Art and Design in London and Bocconi University in Milan. The Group often uses the contacts it establishes with these initiatives to recruit young talents. In 2014, the Group also established initial contact with young talents at 15 job fairs.

Over 400 interns were given the opportunity of gaining practical experience in nearly all the HUGO BOSS departments in 2014. During their period with the Group, interns have the opportunity to attend events organized especially for them where they can network and gain insights into other departments of the Group. Selected interns can follow up their internship by writing their final-year papers at the Group. In 2014, HUGO BOSS mentored almost 30 final-year papers.

The success of the Group’s employer branding activities and intern mentoring was reflected in a further improvement in its ranking in various lists of Germany’s most popular employers last year. For example, the Group has been able to improve its ranking in the list of the 100 most attractive employers in Germany in the annual independent student survey Universum TOP 100.

The Group considers it very important to help its employees find a healthy work-life balance. Staff are able to take part in numerous sports activities. A comprehensive support program is available for young families. Nutritionists, a balanced nutrition concept at the campus restaurant and the annual health day also contribute to personal well-being and help improve the performance of each individual employee. → Sustainability

Through the systematic training and development of personnel based on a transparent competence model, the Group aims to continuously improve its employees’ knowledge and capabilities. This increases not only the performance of the organization as a whole but also the motivation and self-confidence of individual employees.

Via targeted further training, employees improve their performance in the workplace and grow their expertise beyond the requirements of their current job profile. In addition to a large number of classroom training courses, more and more web-based training courses are being offered in different languages, particularly in the Group’s own retail business, which allow standardized training of employees worldwide. More than 46,000 web-based training courses were successfully completed throughout the Group in the past fiscal year (2013: 33,000). Last year, the Group’s own stores were equipped with tablet PCs running training apps to allow store employees to gain access to training more easily and to permit flexible learning.
Apart from this, the personal development of individuals is supported on a case-by-case basis through transfers to other departments or functions both within the Group’s headquarters and to subsidiaries abroad, by expanding the employee’s area of competence or promoting them to a management position. The Group supports every manager on their career path by providing targeted advice and continuously fostering personal, methodological, specialist and leadership-related competencies.

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

The specialist career path was introduced to supplement the management career path. It allows particularly capable and talented employees to broaden their knowledge over the transparent development stages of a specialist career path. Clearly defined job profiles and the use of external salary benchmarks ensure transparent and targeted monetary development. Employees who have embarked on the specialist career path are offered an excellence program aligned to the requirements of this career, providing them with the expertise and methodological skills they require and offering a platform for sharing what they have learned. Last year, three employees of HUGO BOSS AG were promoted to the highest level of the specialist career path for the first time.

The HUGO BOSS Group’s remuneration system is designed to ensure the fair and transparent compensation of employees and promote a culture of performance and dedication. Clearly documented job descriptions and assessments are the basis for setting remuneration. Employees in Germany with collectively bargained wage agreements are remunerated on the basis of the collective agreement of the Südwestdeutsche Bekleidungsindustrie (Southwest German Textile Industry). Personnel assigned to retail activities are remunerated in accordance with the collective agreement for the German retail industry. Employees in retail and distribution receive a fixed salary and a variable component that is tied to quantitative targets. For instance, the remuneration of employees in the Group’s own retail stores is tied to the achievement of service standards and guidelines defined uniformly throughout the Group. In addition, targets set for specific retail indicators create shared incentives for the employees of individual stores. Employees who do not have collectively bargained wage agreements receive a basic salary plus a bonus, half of which is linked to Group targets and the achievement of qualitative and quantitative personal objectives. The Group targets are based on trends in sales, operating profit, the operating margin and trade net working capital as a percentage of sales. In 2014, sustainability-related criteria were also included in employee bonus agreements for the first time. → Sustainability
HUGO BOSS has a comprehensive company pension plan. For instance, the Group takes out employer-funded direct insurance for all employees who have been with the Group for more than six months. Apart from the statutory subsidies, the employer-funded deferred compensation is supplemented by an additional employer subsidy. In this way, HUGO BOSS makes an important contribution to providing for its employees after retirement.

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

Season for season, HUGO BOSS has to prove itself on the global apparel market and create collections that meet the high design and quality expectations of customers. The research and development activities at the start of the value chain have a decisive influence on customers’ perception of the Company’s innovative strength and design competence. In addition, innovative development processes and manufacturing techniques make a crucial contribution to enhancing the efficiency and sustainability of the entire production process. Innovation therefore plays a central role in the Company’s success and is firmly anchored in the Company’s mission statement as one of its five values.

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

As one of the leaders in the premium and luxury segment of the global apparel market, the HUGO BOSS Group places great importance on presenting fashionable, innovative products to customers season after season, in order to create purchase incentives time and again. At the same time, the customer expects HUGO BOSS to deliver products in every collection with the accustomed high product quality, perfect fit and unmistakable signature design. As a result, the focus of development at HUGO BOSS is both on exacting standards for quality, fit and consistent brand management and on outstanding and innovative design.

Because the research and development process stands at the start of the value chain, it plays a decisive role in the collection’s later success.
In the first step of the product development process, creative management defines the collection statement, plans the color, theme, shape and fabric concepts and sets the targeted price points. Insights from sell-through analysis of the reference season are factored into the design process for the new collection. In order to compile information on current trends in colors and materials as well as new kinds of processing techniques at an early stage, the design departments attend specialist trade shows several times a year. In their search for new ideas, the creative teams seek inspiration from a range of fields, including architecture, design and art, but also from new technologies and socioeconomic developments. In the Fall/Winter 2014 menswear collection, for example, inspiration was derived from the Scandinavian capitals such as the new Opera House in Oslo. The collection combined architectural forms with natural fabrics and clear colors. In this first step in the product development process, the design teams also draw on the expertise of external advisors such as trend scouts to a limited extent, in order to identify fashion trends even earlier.

In a second step, the creative department hands over its sketches to the pattern design department where the feasibility of the creative ideas is initially reviewed from a tailoring perspective. The technical development department then produces prototypes from the models. With its development center in Metzingen, which has a structure reflecting industrial production operations, HUGO BOSS is able to quickly turn creative designs into prototypes and to test their suitability for inclusion in the industrial production process at an early stage. In addition, new manufacturing techniques are constantly being developed. For example, an innovative welding system was used for the development of womenswear for the first time last year. By welding individual parts of the product, it is possible to apply additional elements and therefore add fashionable highlights.

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

Throughout all stages, seamless collaboration of all those involved, including external suppliers and technology partners, is essential to ensure high product quality and maximize the efficiency of the research and development process. In order to keep abreast of the latest technological advances, HUGO BOSS regularly visits textile machinery fairs and tests the equipment at its development center in Metzingen. For example, a modern cutting machine was installed at the Metzingen facility last year. By optically scanning the material properties, it is able to process the patterns of even striped and checked materials precisely, quickly and completely automatically.

To further simplify and accelerate technical product development, the Group is increasingly using computer-based virtualization technology for shirts, jerseys, knitwear, outerwear, trousers, bodywear, blouses, dresses, suits and shoes. Virtual product development entails making digital 2D patterns of the designers’ creative ideas and then converting these to 3D simulations of the finished product. With the help of these 3D prototypes it is possible to virtually visualize different color and material variations and the use of different processing techniques. Virtual prototypes can be discussed with in-house employees involved in the process directly on the computer terminal and adjusted flexibly. This close cooperation between the development teams makes it possible to develop products not only more
quickly but also less expensively and on a more sustainable basis due to the reduced need for physical prototypes. In this way, the use of 3D technology makes it possible to optimize the development process significantly.

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

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

At HUGO BOSS, innovation and development work is organized across five development centers in Metzingen (Germany), New York City (USA), Coldrerio (Switzerland), Morrovalle (Italy) and Scandicci (Italy). At its Group headquarters in Metzingen, the Company leverages its many years of experience in industrial textile manufacturing for trend-setting creative and technological product developments in the core business of classic tailoring as well as leisure and sportswear. Since the appointment of Jason Wu as Artistic Director, parts of the BOSS womenswear collections have been created at a design studio in New York. The Coldrerio competence center is responsible for the development of the textile product groups shirts, ties and knitwear, but also has overarching responsibility for shoes, leather accessories and bodywear. The Italian locations in Morrovalle and Scandicci focus on the development of shoes and leather accessories.
The HUGO BOSS Group’s creative and development departments are staffed by skilled fashion designers, tailors, shoe and clothing technicians and engineers. In 2014, the headcount in research and development came to 555 employees (2013: 549).

### 02|19 NUMBER OF EMPLOYEES IN R&D AS OF DECEMBER 31

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>555</td>
</tr>
<tr>
<td>2013</td>
<td>549</td>
</tr>
<tr>
<td>2012</td>
<td>553</td>
</tr>
<tr>
<td>2011</td>
<td>492</td>
</tr>
<tr>
<td>2010</td>
<td>445</td>
</tr>
</tbody>
</table>

Research and development expenses largely comprise personnel expenses and other operating expenses. In 2014, as in the past several years, the majority of research and development expenses were expensed as incurred. In addition, production-related development expenses are included in the costs of conversion of inventories. No research and development expenses were capitalized as internally generated intangible assets. Total expenditure across the Group in connection with the creation of collections increased by 5% in the past fiscal year to EUR 62 million (2013: EUR 59 million). At 69%, personnel expenses made up the majority of research and development expenses (2013: 69%). The ratio of research and development expenses to consolidated sales remained unchanged at 2% in the past fiscal year (2013: 2%).

### 02|20 R&D EXPENSES (in EUR million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>61.5</td>
</tr>
<tr>
<td>2013</td>
<td>58.7</td>
</tr>
<tr>
<td>2012</td>
<td>56.7</td>
</tr>
<tr>
<td>2011</td>
<td>46.7</td>
</tr>
<tr>
<td>2010</td>
<td>41.7</td>
</tr>
</tbody>
</table>

### 02|21 R&D EXPENSES (in % of sales)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2.4</td>
</tr>
<tr>
<td>2013</td>
<td>2.4</td>
</tr>
<tr>
<td>2012</td>
<td>2.4</td>
</tr>
<tr>
<td>2011</td>
<td>2.3</td>
</tr>
<tr>
<td>2010</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Slight increase in number of employees in R&D

Moderate increase in R&D expenses
SOURCING AND PRODUCTION

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

As a company with international production activities and business operations, HUGO BOSS relies on well-rehearsed, standardized and system-enabled sourcing and production processes as a key success factor. This is the only way of ensuring the timely availability of goods on the shop floor and the outstanding quality that customers of HUGO BOSS products expect. 20% of the total procurement volume is manufactured by HUGO BOSS’ own factories (2013: 20%). The remaining 80% comprises products sourced from independent contract suppliers or as merchandise (2013: 80%). As the Group produces a substantial part of its classic tailoring range in-house, it secures and continually expands crucial expertise, further develops quality standards and optimizes the availability of goods.

The Group’s own production facilities are located in Izmir (Turkey), the Group’s largest production facility, Cleveland (USA), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). The Izmir plant mainly produces coats, suits, jackets, trousers, shirts as well as tailored womenswear across all product groups. Apart from prototypes, sample pieces and individual orders, the Metzingen site mainly produces suits, jackets and trousers in small series. This is also where HUGO BOSS tailors its Made to Measure suits. Production activities in Radom and Morrovalle are focused on shoe manufacture. The plant in Cleveland (USA), where suits for the American market had been produced to date, will be closed in the first half of 2015 based on a comprehensive site analysis. The volume so far manufactured in Cleveland will be relocated to own production facilities and existing Group suppliers, respectively. In contrast, capacity at the Group’s own production facility in Izmir are to be increased in 2015 with the construction of a new production hall. This underscores the Group’s commitment to concentrating crucial production expertise at a smaller number of larger locations.

HUGO BOSS offers a wide range of apparel and accessories in the premium and increasingly also in the luxury segment. Given the resulting complexity of the range, it relies on a sufficiently large network of experienced and specialized suppliers. The number of suppliers was reduced again last year through optimized capacity utilization. In the areas of merchandise and contract manufacturing, for instance, the Group partnered with around 280 suppliers in 2014 (2013: 300). The sourcing volume is generally distributed across a global network of suppliers in order to spread risk and maintain the greatest possible independence from individual procurement markets and producers. The largest single independent supplier accounted for only 8% of the total volume sourced by the HUGO BOSS Group last year (2013: 7%).

Report on Risks and Opportunities
HUGO BOSS imposes very demanding requirements on its suppliers and works exclusively with carefully selected partners. The most important criterion in the selection of suppliers is the ability to meet the high quality and finishing standards. Additional key criteria include the supplier’s reliability, technical equipment and innovative capacity, financial robustness and cost efficiency. Strict adherence of production sites to the social standards contractually agreed upon is a non-negotiable precondition for the establishment of a business relationship. The observance of quality and social standards is monitored in regular on-site audits. → Sustainability

Sourcing activities are broken down into the procurement of raw materials, contract manufacturing and purchased merchandise. The raw materials sourced are mainly fabrics but also include additional items such as lining, buttons, thread and zippers. The majority of raw materials processed in-house or under contract come from Europe. Fabrics are predominantly sourced from long-standing partners in Italy.

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

Measured by value, almost half of all HUGO BOSS products are produced in Eastern Europe and Turkey (47%; 2013: 49%). The Group’s own factory in Turkey plays a leading role in this respect, accounting for 15% of the total volume sourced (2013: 15%). Asia is the source of 33% of products (2013: 32%), and China is still the most important supplier country in this region. The remaining goods are obtained from Western Europe (11%; 2013: 10%), North Africa (5%; 2013: 6%) and the Americas (4%; 2013: 3%).
02|22 REGIONAL SPLIT OF SOURCING AND PRODUCTION VOLUME (in %)

<table>
<thead>
<tr>
<th>Region</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>4 (3)</td>
<td></td>
</tr>
<tr>
<td>Western Europe</td>
<td>11 (10)</td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>47 (49)</td>
<td>49 (49)</td>
</tr>
<tr>
<td>Asia</td>
<td>33 (32)</td>
<td></td>
</tr>
<tr>
<td>North Africa</td>
<td>5 (6)</td>
<td></td>
</tr>
</tbody>
</table>

Establishment of strategic relations with suppliers of crucial importance

The Group has a keen interest in maintaining long-term strategic relations with its suppliers. Joint efforts to enhance manufacturing expertise are essential in order to ensure the excellent finishing quality for which HUGO BOSS products are renowned worldwide. Precise synchronization between the production companies and technical development departments within the HUGO BOSS Group is essential in order to enable a quick response to market trends and minimize lead times. Production-related considerations are factored into the product development process at a very early stage, for instance. Feedback from suppliers on the fabrics and patterns processed in the last collection is taken into account in new designs. Innovative processing techniques are repeatedly tested in close consultation with production partners so that new developments in processes, IT systems and machinery can also be rolled out at partners’ facilities once testing is complete. Last year, for example, a manual on processing down-based filling was prepared in conjunction with selected suppliers and machinery for automatically filling down products was installed at the participating suppliers’ facilities. → Research and Development

Reducing complexity raises sourcing efficiency

In order to effectively counter cost increases in the sourcing processes, especially due to increased labor costs, continuous efficiency improvements are needed along the entire supply chain. An important lever to this end is ensuring a seasonally balanced utilization of supplier capacity and ordering large volumes where possible. In this context, the core range and associated reduction of collection complexity play an important role. The complexity of collections has been reduced by one-third over the past few years. A 10% year-on-year reduction was achieved in fiscal year 2014. In addition, the Group continually reassesses the regional optimization of its sourcing activities in light of diverging labor cost trends and changing industrial structures and manufacturing competencies in individual markets.
HUGO BOSS is also continuing to work on optimizing its planning, production and logistics processes from an IT perspective. To this end, the uniform system-side integration of suppliers in the Group’s organization has been stepped up in the past few years, thereby improving the transparency of merchandise flows along the entire supply chain. For example, an SAP-linked, web-based supplier platform simplifies communications with production partners. The system-side exchange of information also enables orders to be bundled on the basis of needs and the required production capacity to be reserved with the supplier at an early stage and cost-effectively. Real-time status reporting means that orders can be prioritized according to urgency, so that goods can be delivered on schedule. Closer integration with suppliers also allows placement of follow-up orders at short notice and quick response times. This is especially relevant for the replenishment business, which ensures that business partners are supplied at short notice, especially with the basic non-seasonal assortment.

HUGO BOSS sets highest requirements for the quality of its products. To meet them, quality assurance starts where the product originates – directly with the supplier. The production facilities are supplied with standardized quality and processing manuals which document the requirements. In addition, the most important processes that are relevant to quality are described in a process manual for the Group’s own production plants. In order to meet the high quality standards while minimizing manufacturing tolerance, the manufacturing process is automated to the extent that this is economically viable. Compliance with manufacturing standards is ensured using fixed, technology-enabled controls that are always performed at specific steps along the production line. In addition to the firmly established control levels, regular samples are taken to monitor the other steps of the process.
SUSTAINABILITY

As a global leader in the apparel industry, HUGO BOSS shares responsibility for adhering to sustainability standards along a global value chain. By acting responsibly, the Group creates added value – for customers, shareholders, business partners, employees and society. Sustainability is therefore a permanent part of HUGO BOSS’ mission statement, strategy and business processes.

The six fields of action We, Environment, Employees, Partners, Products and Society were defined as part of a materiality analysis. They specify the central sustainability challenges for HUGO BOSS and, together with the reporting standards of the Global Reporting Initiative (GRI), create the foundation and structure for reporting on the Group’s sustainability objectives and performance.

<table>
<thead>
<tr>
<th>02</th>
<th>23 SUSTAINABLE ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>We</td>
<td>Acting in the interests of stakeholders</td>
</tr>
<tr>
<td>Environment</td>
<td>Conserving natural resources</td>
</tr>
<tr>
<td>Employees</td>
<td>Providing fair employment and targeted support</td>
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<tr>
<td>Partners</td>
<td>Working together responsibly</td>
</tr>
<tr>
<td>Products</td>
<td>Developing ideas for tomorrow</td>
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<tr>
<td>Society</td>
<td>Establishing common values</td>
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The Group aims to continuously improve in all six fields of action described in this section and accordingly, has formulated ambitious objectives. As a means of measuring the Group’s progress and the degree of implementation of these objectives, HUGO BOSS is working towards inclusion in the Dow Jones Sustainability Index, among other things.

As part of its sustainability management, HUGO BOSS maintains a continuous dialogue with its stakeholders. The Group sees stakeholders’ diverse expectations and demands as an opportunity to create value for all concerned. For example, in 2014 HUGO BOSS analyzed the needs and expectations of customers related to sustainability issues; and sought an open exchange with investors who give special consideration to sustainability. HUGO BOSS also intensified its ongoing dialogue with scientific institutions, in cross-industry initiatives and in its cooperation with non-government organizations last year, creating a basis for an open and transparent exchange of views on socially relevant topics. This also includes expanding reporting on corporate activities, which the Group disclosed for the first time in 2014 in the sustainability report for 2013.
HUGO BOSS places great importance on integrating the concept of sustainability within the organization. For this reason, in 2014 management included the corporate objectives defined in the fields of action of environment, employees, partners, products and society in executives’ individual target agreements.

Environmental and climate protection is given high priority at HUGO BOSS. Against this backdrop, the Group’s environmental footprint is reduced continuously along the entire value chain – from the sourcing of raw materials through to the development and manufacture of products and on to transportation, retail and marketing. In this context, HUGO BOSS has the objective to reduce specific CO₂ emissions (Scope 1 and 2 Greenhouse Gas Protocol) in relation to sales by 30% by 2020, in comparison with 2010.

100% of the electricity used by HUGO BOSS AG’s administrative and logistics buildings in Germany is derived from renewable sources. HUGO BOSS Ticino (Switzerland) has been supplied with 100% electricity from renewable sources since 2010. The energy management system (DIN EN ISO 50001) implemented by HUGO BOSS AG at its Metzingen headquarters in 2012 was successfully re-audited in 2014. This does not apply to the logistics center in Frickenhausen, the lease for which expired on December 31, 2014. In addition, Izmir, the largest HUGO BOSS production site, was certified according to DIN EN ISO 14001 and DIN EN ISO 50001 for the first time. HUGO BOSS has set itself the objective of continuously improving building efficiency. The Group intends to obtain sustainability certificates for all newly built operating properties. An important milestone in this respect was reached in 2013: The German Sustainable Building Council (DGNB) awarded the newest administrative building in Metzingen its “Gold” certificate as one of the three most sustainable new office and administrative buildings in Germany. In 2014, HUGO BOSS received the DGNB “Gold” certification for the new flat-packed goods distribution center in Filderstadt Bonlanden, near Stuttgart. Furthermore, the Group has taken measures to further reduce the volume of CO₂ emissions from logistics and distribution processes (Scope 3).

The environmental compatibility of the packaging used was also subjected to critical analysis. As a consequence, the Group switched over to using a more environmentally friendly recycled paper (post-consumer recycled) for all paper carrier bags of the core BOSS brand in 2014, thus meeting the strictest environmental standards.

HUGO BOSS’ code of conduct forms the basis for cooperation within the Group and with external partners. It is binding for all employees. Among other things, the code puts into words the general demands placed on conduct in business activities, contains regulations on avoiding conflicts of interest, governs the topics of data protection, health and industrial safety and forbids corruption and bribery. Within the framework of these regulations, executives are responsible for creating, together with employees, a culture characterized by the corporate values of quality, passion, respect, cooperation and innovation. These values are elaborated upon in numerous activities and workshops and are also included in each employee’s individual target agreement. → Employees
Diversity is brought to life at HUGO BOSS as a Company with international operations and an international culture. For the Group, this means recognizing the diversity of society and safeguarding equal opportunities for all its employees – irrespective of nationality, gender, religion, political views, sexual orientation, age or any disability. Diversity enriches the corporate culture and is thus a clear success factor in international competition. The Group has further underlined the importance it places on diversity by becoming a signatory to the “Charter of Diversity.”

Since seven years HUGO BOSS has been a member of the Germany-wide network “Erfolgsfaktor Familie” (“Success Factor Family”) and offers its employees a flexible family support model. The key objective is to ensure an easy return to the workplace following maternity or parental leave. Employees at the Group’s headquarters in Metzingen have places reserved at two different child daycare centers and the option of receiving financial support for alternative childcare arrangements.

To create higher awareness amongst employees on issues such as the importance of healthy nutrition, exercise and stress reduction, and to support practical initiatives; an annual health day is held at the headquarters in Metzingen with a myriad of presentations, workshops and exhibition stands. Healthy nutrition is also promoted by HUGO BOSS at the workplace. The campus restaurant offers a balanced nutrition concept with menus that change daily, as well as a large selection of fresh fruit and salads. Employees have the option to consult with special nutrition coaches. In addition, all employees at the Group’s headquarters can exercise at the Company’s own fitness studio and take part in subsidized courses. HUGO BOSS provides its employees with similar offerings at all its sites, for example at Coldrerio and the Group’s largest production site in Izmir.

Focus areas of the sustainability management at HUGO BOSS are social compliance and environmental protection. Therefore, compliance with human rights and environmental standards is of central importance to the Group.

HUGO BOSS commits itself and its suppliers to comply with internationally recognized labor and social standards following the conventions of the International Labour Organization (ILO) and the Universal Declaration of Human Rights of the United Nations. The resulting HUGO BOSS social standards are a fixed component of contracts with suppliers. Before the Company enters into a business relationship with a new supplier, they are always assessed with regard to compliance with social standards. This is done either in the form of an audit or a self-assessment. The social standards regulate the following aspects: compliance with local laws, prohibition of child labor, prohibition of forced labor, maximum working hours, humane working conditions, prohibition of discrimination, payment of fair wages, healthy and safe working conditions, freedom of association and collective wage bargaining and responsible care for the environment. Should there be gaps in local legislation where, for example, working hours or wages are not defined, the HUGO BOSS’ social standards become the minimum standard.
In order to ensure that good and safe working and social conditions are implemented as effectively as possible and to address the request for more transparency to an even greater extent, the Group started a partnership with the Fair Labor Association (FLA) in fiscal year 2014. By cooperating with other companies and NGOs in the context of the multi-stakeholder initiative, it is possible to learn from best practices and collaborate towards improving working conditions. Furthermore, the Fair Labor Association has initiated projects for more widespread fair compensation, which HUGO BOSS supports and is a contributor.

To be able to address the topic of appropriate compensation even more fully, the Group is in direct dialogue with the International Labour Organization (ILO).

Contract manufacturers and suppliers of merchandise that generate a relevant level of sales with HUGO BOSS are reviewed worldwide in regular audits. These audits are performed both by the Group’s internal auditors and by external, experienced service partners. They ensure compliance with HUGO BOSS social standards and serve to assist the efforts of HUGO BOSS’ suppliers to make improvements in the area of social compliance management. The audit findings are included in a bi-annual supplier evaluation. Should any infringements of the HUGO BOSS social standards or legal requirements be identified, a binding package of measures is agreed upon with the supplier and a re-audit scheduled. In exceptional cases, such as repeated warnings and should there be no indication of improvements being initiated, or serious breaches of HUGO BOSS’ social standards, HUGO BOSS reserves the right to terminate the business relationship. In principle, however, the Company places an emphasis on mutually defined and continuous improvement measures, in order to enable long-term partnerships.

Moreover HUGO BOSS’ social standards oblige all suppliers to comply with local and national environmental legislation, as well as to promote environmental stewardship at their sites, in order to continuously reduce environmental impact. In 2014, the environmental module of the GSCP (Global Social Compliance Programme), an open standard based on best practices, was piloted successfully worldwide at selected suppliers. In 2015, the module will be used as an additional measure to reduce the environmental impact along the supply chain. Moreover, HUGO BOSS supports partners wherever possible, in order to ensure an ongoing knowledge transfer.

As a leading international company in the premium and luxury segment of the apparel industry, it is a matter of course for HUGO BOSS to live up to its responsibility to consumers. For its collections, the Group uses only materials that meet high quality standards and makes every effort to ensure that its products do not pose a health risk.

Accordingly, HUGO BOSS obliges its suppliers to sign a guarantee of compliance with the Restricted Substances List (RSL). The RSL contains guidelines on adherence to relevant national legislation governing the use of chemicals and other harmful substances in products, as well as the Group’s internal guidelines, which are often more stringent than legal minimum standards. These requirements apply to all materials used and substances relevant to the production process. HUGO BOSS supports such preventive measures with active tests.
for hazardous products performed in accredited laboratories that ensure the safety and quality of the products. In addition, the Group launched a project in 2014 to make production processes even safer with new technologies and more environmentally friendly chemicals.

Likewise, HUGO BOSS attaches great importance to avoiding health hazards at the production companies. In this respect, the Group abstains from a procedure known as sandblasting. This procedure refers to the use of sand jets as a method of refining denim products to achieve a "used" look. Using quartz sand for this method without sufficient protective measures can lead to serious damage to employees’ health. The Group does not use any other sandblasting technology, nor does it employ any other blasting agents.

Animal welfare and protection of biodiversity are additional central principles of HUGO BOSS’ product responsibility. The Group respects this biodiversity and thereby supports nature conservation. Any animal testing, inhumane treatment of animals and inappropriate animal breeding and rearing methods are rejected. Fur products, which only account for a very small share of the overall collection, is mostly used for appliqués and trimmings on collars, hoods and sleeves.

As a result, the Group has decided, for example, to switch the sourcing of merino wool to give preference to sources which are able to prove that mulesing, which is a painful treatment for sheep, is not being applied. In 2014 it was decided no longer to use angora wool, which is in most cases obtained by procedures which are painful to the animals. The Group likewise strictly rejects the use of live-plucked down and is already using alternative materials.

In addition, HUGO BOSS has been in dialogue with several animal and consumer protection organizations for many years, to continuously improve in the area of animal welfare.

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

The framework for corporate social responsibility is defined by HUGO BOSS’ code of conduct. It prohibits donations to political parties and their representatives, as well as to organizations such as trade unions, consumer rights groups and environmental protection groups, with which conflicts of interests might arise. Furthermore, the code outlines specific criteria for HUGO BOSS’ philanthropic donations.
HUGO BOSS has aligned its corporate social responsibility to helping disadvantaged children lead a better life, particularly by granting them access to education. To this end, the Group works together with selected child welfare organizations. UNICEF and HUGO BOSS have been partners in this area for many years. The Group has been successfully supporting the UNICEF initiative “Schools for Africa” for many years now and supports educational projects in Bangladesh. HUGO BOSS also provides aid when crises occur and targeted assistance is needed. For example, in 2014 HUGO BOSS implemented an internal Christmas campaign, in order to aid Syrian child refugees. At a national level, HUGO BOSS champions children and young people, for example as a partner of the Off Road Kids foundation. This is an organization providing aid to street children throughout Germany.

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