CHAPTER
4

Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016

CONSOLIDATED INCOME STATEMENT (in EUR thousand)

	Notes	2016	2015
Sales	(1)	**2,692,846**	**2,808,746**
Cost of sales	(1)	(915,384)	(955,930)
Gross profit		**1,777,462**	**1,852,816**
In % of sales		66.0	66.0
Selling and distribution expenses	(2)	(1,175,454)	(1,136,551)
Administration expenses	(3)	(271,804)	(264,307)
Other operating income and expenses	(4)	(66,701)	(4,246)
Operating result (EBIT)		**263,503**	**447,712**
Net interest income/expenses		**(2,162)**	**(5,901)**
Other interest and similar income		1,567	1,190
Interest and similar expenses		(3,729)	(7,091)
Other financial items		**(5,705)**	**(21,837)**
Financial result	(5)	**(7,867)**	**(27,738)**
Earnings before taxes		**255,636**	**419,974**
Income taxes	(6)	(61,991)	(100,556)
Net income		**193,645**	**319,418**
Attributable to:			
Equity holders of the parent company		193,513	319,355
Non-controlling interests		132	63
Earnings per share (EUR)[1]	(7)	**2.80**	**4.63**
Dividend per share (EUR)	(16)	**2.60**[2]	**3.62**

[1] Basic and diluted earnings per share.
[2] 2016: Proposed dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in EUR thousand)

	2016	2015
Net income	**193,645**	**319,418**
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	(2,817)	2,404
Items to be reclassified subsequently to profit or loss		
Currency differences	(7,486)	39,081
Gains/losses from cash flow hedges	(2,252)	842
Other comprehensive income, net of tax	**(12,555)**	**42,327**
Total comprehensive income	**181,090**	**361,745**
Attributable to:		
Equity holders of the parent company	180,879	361,682
Non-controlling interests	211	63
Total comprehensive income	**181,090**	**361,745**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

OF THE HUGO BOSS GROUP AS OF DECEMBER 31, 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in EUR thousand)

Assets	Notes	**2016**	2015
Intangible assets	(9)	185,449	182,602
Property, plant and equipment	(9)	416,278	439,788
Deferred tax assets	(6)	124,685	115,166
Non-current financial assets	(11), (21)	21,027	22,448
Non-current tax receivables	(6)	55	689
Other non-current assets	(11)	4,233	3,910
Non-current assets		**751,727**	**764,603**
Inventories	(12)	567,971	559,509
Trade receivables	(13)	228,176	239,614
Current tax receivables	(6)	42,617	21,124
Current financial assets	(11), (21)	28,339	29,017
Other current assets	(11)	96,302	104,582
Cash and cash equivalents	(14)	83,490	81,409
Assets held for sale		0	487
Current assets		**1,046,895**	**1,035,742**
TOTAL		**1,798,622**	**1,800,345**

Equity and liabilities			
Subscribed capital	(15)	70,400	70,400
Own shares	(15)	(42,363)	(42,363)
Capital reserve		399	399
Retained earnings		813,289	873,107
Accumulated other comprehensive income		44,778	54,595
Equity attributable to equity holders of the parent company		**886,503**	**956,138**
Non-controlling interests		1,048	(463)
Group equity		**887,551**	**955,675**
Non-current provisions	(17), (18)	78,554	72,082
Non-current financial liabilities	(19), (21)	134,111	134,975
Deferred tax liabilities	(6)	9,193	7,776
Other non-current liabilities	(20)	49,353	42,242
Non-current liabilities		**271,211**	**257,075**
Current provisions	(18)	148,614	102,773
Current financial liabilities	(19), (21)	77,077	41,475
Income tax payables	(6)	27,339	46,361
Trade payables		271,731	271,506
Other current liabilities	(20)	115,099	125,480
Current liabilities		**639,860**	**587,595**
TOTAL		**1,798,622**	**1,800,345**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in EUR thousand)

	Subsribed capital	Own shares	Capital reserve
Notes	(15)	(15)	
January 1, 2015	**70,400**	**(42,363)**	**399**
Net income			
Other income			
Comprehensive income			
Dividend payment			
Acquisition of non-controlling interests			
Changes in basis of consolidation			
December 31, 2015	**70,400**	**(42,363)**	**399**
January 1, 2016	**70,400**	**(42,363)**	**399**
Net income			
Other income			
Comprehensive income			
Dividend payment			
Changes in basis of consolidation			
December 31, 2016	**70,400**	**(42,363)**	**399**

	Retained earnings		Accumulated other comprehensive income		Group equity		
	Legal reserve	Other reserves	Currency translation	Gains/losses from cash flow hedges	Total before non-controlling interests	Non-controlling interests	Group equity
	6,641	**794,689**	**15,320**	**(648)**	**844,438**	**(520)**	**843,918**
		319,355			319,355	63	319,418
		2,404	39,081	842	42,327		42,327
		321,759	**39,081**	**842**	**361,682**	**63**	**361,745**
		(249,839)			(249,839)		(249,839)
		(114)			(114)	(6)	(120)
		(29)			(29)		(29)
	6,641	**866,466**	**54,401**	**194**	**956,138**	**(463)**	**955,675**
	6,641	**866,466**	**54,401**	**194**	**956,138**	**(463)**	**955,675**
		193,513			193,513	132	193,645
		(2,817)	(7,565)	(2,252)	(12,634)	79	(12,555)
		190,696	**(7,565)**	**(2,252)**	**180,879**	**211**	**181,090**
		(249,839)			(249,839)		(249,839)
		(675)			(675)	1,300	625
	6,641	**806,648**	**46,836**	**(2,058)**	**886,503**	**1,048**	**887,551**

CONSOLIDATED STATEMENT OF CASH FLOWS

OF THE HUGO BOSS GROUP FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2016

CONSOLIDATED STATEMENT OF CASH FLOWS (in EUR thousand)

	Notes	**2016**	2015
	(24)		
Net income		193,645	319,418
Depreciation/amortization	(8)	169,179	142,099
Unrealized net foreign exchange gain/loss		(6,576)	7,915
Other non-cash transactions		4,980	(2,229)
Income tax expense/refund	(6)	61,991	100,556
Interest income and expenses	(5)	2,162	5,901
Change in inventories		(5,320)	(22,852)
Change in receivables and other assets		13,716	595
Change in trade payables and other liabilities		(1,097)	38,963
Result from disposal of non-current assets		(2,542)	(2,000)
Change in provisions for pensions	(18)	5,321	(7,110)
Change in other provisions		43,332	(9,261)
Income taxes paid		(105,708)	(145,525)
Cash flow from operations		**373,083**	**426,470**
Interest paid	(5)	(2,380)	(4,076)
Interest received	(5)	1,559	1,190
Cash flow from operating activities		**372,262**	**423,584**
Investments in property, plant and equipment	(9)	(121,477)	(154,256)
Investments in intangible assets	(9)	(31,025)	(39,857)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired	(24)	(2,825)	(22,951)
Cash receipts from sales of property, plant and equipment and intangible assets		3,296	1,106
Cash flow from investing activities		**(152,031)**	**(215,958)**
Dividends paid to equity holders of the parent company	(16)	(249,839)	(249,839)
Dividends paid to non-controlling interests		0	0
Change in current financial liabilities		32,844	24,278
Cash receipts from non-current financial liabilities		3,842	76,280
Repayment of non-current financial liabilities		(5,479)	(105,973)
Cash outflows for the purchase of additional interests in subsidiaries without change of control		0	(114)
Cash flow from financing activities		**(218,632)**	**(255,368)**
Exchange-rate related changes in cash and cash equivalents		482	520
Change in cash and cash equivalents		**2,081**	**(47,222)**
Cash and cash equivalents at the beginning of the period		81,409	128,631
Cash and cash equivalents at the end of the period	(14)	**83,490**	**81,409**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2016

GENERAL INFORMATION

HUGO BOSS AG is a publicly listed stock corporation with registered offices in Dieselstrasse 12, 72555 Metzingen, Germany. The Company is filed in the commercial register of Stuttgart local court under HRB 360610.

The purpose of HUGO BOSS AG and its subsidiaries (together the "HUGO BOSS Group") is the development, marketing and distribution of high-end men's and women's fashion and accessories in the premium and luxury segment.

The consolidated financial statements of HUGO BOSS AG as of December 31, 2016, were prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code].

The consolidated financial statements and combined management report of HUGO BOSS AG, Metzingen, were authorized for issue to the Supervisory Board by the Managing Board by resolution dated March 7, 2017.

Due to rounding differences and the presentation in EUR thousand, it is possible that individual figures in the consolidated financial statements do not exactly add up to the reported totals.

FINANCIAL REPORTING

Adoption of the standards and interpretations revised in 2016 does not have any material effects on the presentation of the Group's results of operations, net assets and financial position.

The following significant accounting standards were not yet compulsory for the fiscal year 2016. The implications are currently still being reviewed.

IFRS 9: FINANCIAL INSTRUMENTS

In July 2014, the IASB published the final version of the IFRS 9 "Financial instruments". The standard was adopted by the EU in November 2016 and includes revised guidance on the classification and measurement of financial assets, including guidance on the impairment of financial instruments, and thus replaces IAS 39. The recognition of losses is therefore preferred in the new "expected loss model", meaning that realized losses and expected losses must be recorded. The HUGO BOSS Group cannot conclusively assess the effects of the first application of the standard on January 1, 2018, at present. However, it is expected that the application of the new standard will only have a minor effect on the consolidated financial statements.

IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

The IFRS 15 "Revenue from contracts with customers" published by the IASB in May 2014 was adopted by the EU in September 2016 and becomes effective for the first time for fiscal years beginning on or after January 1, 2018. The guidance and definitions contained in IFRS 15 will replace the content of both IAS 11 and IAS 18 and the related interpretations in future. The new standard does not make any distinction between different types of contracts and services, instead defining uniform criteria to determine when a performance obligation is to be recognized at a point in time or over time. Changes to the overall amount of revenue recognized for a customer contract may result in connection with the recognition of subsidies for store furnishings for wholesale customers, but these are currently only expected to be very minor. In addition to this, the HUGO BOSS Group expects changes in the balance sheet, such as separate postings for assets and liabilities under contract as well as additional quantitative and qualitative notes to the financial statements. However, there is not expected to be any material impact on the consolidated financial statements.

IFRS 16: LEASES

IFRS 16 “Leases” provides guidance on recognition, measurement, presentation and disclosure requirements and replaces IAS 17 and the related interpretations. The guidance for recognition by the lessor still makes a distinction between finance leases and operating leases and therefore does not differ materially from the accounting guidance provided in IAS 17. For the lessee, however, no distinction will be made between finance and operating leases in future. Most of the contracts which were previously categorized as operating leases must be recorded in the balance sheet from January 1, 2019. In accordance with IFRS 16, the lessee discloses a leasing liability of the value of the future leasing payments in the balance sheet as well as a corresponding right of use. Given the substantial number of operating leases, HUGO BOSS expects the first-time application of IFRS 16 to have a material effect on the consolidated financial statements, insofar as the standard is adopted by the EU in this form.

CONSOLIDATION PRINCIPLES

The HUGO BOSS Group’s basis of consolidation comprises HUGO BOSS AG and all subsidiaries, including structured entities, over which HUGO BOSS AG can exercise direct or indirect control. HUGO BOSS AG is deemed to exercise control if as the parent company it has power over the subsidiary on account of voting or other rights, is exposed to variable returns from its involvement in the subsidiary and is able to use its power over the subsidiary to affect the amount of these returns. The subsidiary is deconsolidated as soon as the parent company relinquishes control over it.

Subsidiaries with an immaterial influence on the net assets, financial position and results of operations of the Group are not included in the consolidated financial statements. Influence is deemed immaterial if the aggregate sales, earnings and total assets make up less than 1% of the corresponding figures for the Group. This is reassessed at each reporting date. Non-consolidated subsidiaries are measured at fair value or, if this cannot be determined reliably, at cost, and reported under other non-current financial assets.

Structured entities which are controlled by the parent company are also consolidated. These are entities which have been structured in such a way that they are controlled by the parent company regardless of who holds the voting or comparable rights. This is the case, for example, if the exercise of voting rights is confined to administrative tasks and the material activities are governed by contracts.

Joint ventures are consolidated using the equity method. Joint control is the contractually agreed sharing of control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The sale of shares in subsidiaries as a result of which the Group's share in such subsidiary increases or decreases without any loss of control is recognized within the equity of the corresponding equity providers.

BASIS OF CONSOLIDATION

The HUGO BOSS Group's consolidated financial statements include HUGO BOSS AG based in Metzingen, Germany, and the entities that it controls in the reporting period from January 1 to December 31, 2016. The main Group companies included in the consolidated financial statements are as follows:

HUGO BOSS (Schweiz) AG	Zug, Switzerland
HUGO BOSS Australia Pty. Ltd.	Preston, Australia
HUGO BOSS Benelux B.V. y CIA S.C.	Madrid, Spain
HUGO BOSS Benelux Retail B.V.	Amsterdam, Netherlands
HUGO BOSS Canada, Inc.	Toronto, Canada
HUGO BOSS China Retail Co. Ltd.	Shanghai, China
HUGO BOSS Fashions, Inc.	Wilmington, DE, U.S.A.
HUGO BOSS France SAS	Paris, France
HUGO BOSS International B.V.	Amsterdam, Netherlands
HUGO BOSS International Markets AG	Zug, Switzerland
HUGO BOSS Italia S.p.A.	Milan, Italy
HUGO BOSS Retail, Inc.	New York, NY, U.S.A.
HUGO BOSS Textile Industry Ltd.	Izmir, Turkey
HUGO BOSS Ticino S.A.	Coldrerio, Switzerland
HUGO BOSS Trade Mark Management GmbH & Co. KG	Metzingen, Germany[1]
HUGO BOSS UK Limited	London, Great Britain

[1] Subsidiaries that exercise the exemption of Secs. 264 (3) and 264b HGB ["Handelsgesetzbuch": German Commercial Code].

In the reporting period from January 1 to December 31, 2016, the number of consolidated companies compared to the consolidated financial statements as of December 31, 2015, rose from 57 to 60.

The companies over which HUGO BOSS and a further party have joint control are Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG in Pullach, Germany, with a 100% share in capital and 20% of voting rights, and GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG in Grünwald, Germany, with a 100% share in capital and 15% of voting rights.

HUGO BOSS has discretionary power over the consolidation of structured entities insofar as leasing entities are then included in the consolidated financial statements, provided that HUGO BOSS has decision-making power over the entity's key activities and that it is thus able to affect the amount of the variable returns. In view of the rental and lease agreements which were already determined when two of these entities were established, HUGO BOSS assumes in its assessment that the decision-making rights with respect to the mere use of the leased assets during the term of the lease and with respect to the exercise of the call and renewal options provided for in the lease, which were calculated on the basis of the respective expected market value and are therefore unfavorable for HUGO BOSS as of December 31, 2016, do not constitute any decision-making powers with respect to the relevant activities of the entities in question.

BUSINESS COMBINATIONS

When a company obtains control over another company, this constitutes a business combination within the meaning of IFRS 3. All business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed (including contingent liabilities) in a business combination are measured at their acquisition-date fair values. Non-controlling interests are measured at their proportionate share in the fair value of the identifiable assets and liabilities. Acquisition-related costs incurred are expensed.

GOODWILL

The goodwill resulting from a business combination is the excess between the consideration transferred and the fair value of the non-controlling interest in the assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the acquiree, the difference is reassessed and then recognized in profit or loss.

After initial recognition, goodwill is carried at cost in the functional currency of the foreign acquiree less any accumulated impairment losses. Any goodwill recognized is tested for impairment annually and whenever there is an indication that the assets might be impaired.

INTERCOMPANY TRANSACTIONS

The effects of intercompany transactions are eliminated. Receivables and liabilities between the consolidated companies are offset against each other; intercompany gains and losses pertaining to intangible assets, property, plant and equipment and inventories are eliminated; intercompany income is offset against the corresponding intercompany expenses. Deferred taxes are recognized on temporary differences arising on consolidation in accordance with IAS 12.

DETERMINATION OF THE FUNCTIONAL CURRENCY

The Group's reporting currency is the functional currency of the parent company, HUGO BOSS AG. As a rule, the functional currency of the subsidiaries included in the consolidated financial statements is the corresponding local currency. For units that conduct a significant portion of their sales and procurement activities and that finance operations in a currency other than the corresponding local currency, the functional currency is the currency of the primary business environment. Accordingly, the euro is the functional currency of HUGO BOSS Textile Industry Ltd., Turkey, and HUGO BOSS International Markets AG, Switzerland, as these companies conduct most of their business in euro.

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

In the separate financial statements, transactions in foreign currency are translated at the exchange rates valid at the dates of the transactions. Monetary items (cash and cash equivalents, receivables and liabilities) denominated in foreign currencies are translated into the functional currency at closing rates.

The resulting exchange rate gains and losses are recognized through profit and loss in other financial items.

TRANSLATION OF THE SEPARATE FINANCIAL STATEMENTS

The financial statements of the foreign Group companies whose functional currency is not the euro are translated into the Group reporting currency, the euro. Items are translated using the modified closing rate in accordance with IAS 21, under which assets, including goodwill, and liabilities are translated at closing rates, and income statement items are translated at the average exchange rates for the reporting period. The items of the income statement were translated into euros at the average monthly exchange rates and aggregated in the course of the year. Differences from currency translation of income statements at average rates and statements of financial position at closing rates are reported without effect on profit or loss in other comprehensive income. The currency difference resulting from the translation of equity at historical rates is likewise posted to other comprehensive income. Currency differences recognized in other comprehensive income are recycled to the income statement if the corresponding Group company is sold.

The most important exchange rates applied in the consolidated financial statements developed as follows in relation to the euro:

	Currency	Average rate		Closing rate	
Country	1 EUR =	**2016**	2015	**2016**	2015
Australia	AUD	1.4352	1.5025	1.4596	1.4897
China	CNY	7.2944	7.0179	7.3202	7.0608
Great Britain	GBP	0.8447	0.7253	0.8562	0.7340
Hong Kong	HKD	8.1759	8.4311	8.1751	8.4376
Japan	JPY	122.2803	132.3842	123.4000	131.0700
Switzerland	CHF	1.0749	1.0826	1.0739	1.0835
Turkey	TRY	3.6817	3.1732	3.7099	3.1838
U.S.A.	USD	1.0537	1.0878	1.0541	1.0887

ACCOUNTING POLICIES

The financial statements of HUGO BOSS AG and the German and foreign subsidiaries are prepared pursuant to uniform accounting policies in accordance with IFRS 10.

RECOGNITION OF INCOME AND EXPENSES

Income is recognized to the extent that it is probable that the economic benefits will flow to the Group and the income can be reliably measured. Income is measured at the fair value of the consideration received. Income is reported after deductions including discounts and other price deductions and net of VAT. The specific recognition criteria described below must also be met before income is recognized.

Sale of merchandise and goods

In the wholesale channel, income from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. This is the case as soon as delivery to the wholesale partner has been executed and all obligations affecting the acceptance of the goods by the wholesale partner have been settled.

In the Group's own retail business, opportunities and risks arising from the goods pass to the customer upon payment of the goods. Sales are recognized when transactions with customers are completed.

Sales via the online channel are recognized upon delivery of the goods to the customer. The date of delivery is deemed to be the date on which the opportunities and risks arising from the goods pass to the customer.

Claims under return agreements and rights of return are recognized in gross figures in the income statement and the balance sheet in connection with the recognition of sales. The income recognized in the income statement is reduced by an amount equaling the estimated sales attributable to the returned goods and the disposal of goods recorded through profit and loss when the goods are dispatched is adjusted for the estimated value of the returns. A miscellaneous non-financial asset is recognized equaling the amount of the historical costs for which a return is expected. Allowance is also made for additional costs and the loss arising from the resale of the returned goods.

License and other income

License and other income are recognized in the period in which they are generated in accordance with the terms of the underlying agreements.

Operating income is recognized in the income statement when the service is used or generated where there is a direct relationship between the costs incurred and the corresponding income.

Interest income

Interest is recognized pro rata temporis taking into account the effective yield on the asset.

FUNCTIONAL COSTS

Operating expenses are essentially allocated to the individual function based on the respective cost centers. Expenses incurred in connection with cross-functional activities or projects are spread among the function costs concerned using an adequate allocation principle.

RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed as incurred. Development costs are likewise expensed as incurred if they do not satisfy the criteria for recognition as internally generated intangible assets. Production-related development costs are generally included in the calculation of the cost of unfinished and finished goods. These essentially comprise the cost of technical product development in the third phase of the collection creation process.

INCOME TAXES

The tax rates and tax laws used to calculate the income tax are those that are enacted or substantively enacted on the reporting date in the countries where the Group operates and generates taxable income.

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are recognized for all temporary differences between the tax bases and the carrying amounts for financial reporting purposes of the separate entities and the carrying amounts in the consolidated financial statements in accordance with IFRS and for certain consolidation entries.

Deferred tax assets also include tax credits that result from the expected utilization of existing unused tax losses in subsequent years and the realization of which can be assumed with reasonable assurance. Deferred tax assets and deferred tax liabilities are presented on a net basis to the extent that the deferred tax assets and deferred tax liabilities relate to the same taxable entity. Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse.

Income taxes are recorded in the income statement with the exception of those relating to items recognized directly in equity.

INTANGIBLE ASSETS

Intangible assets are recognized if it is probable that a future economic benefit will flow to the company from the use of the asset and the cost of the asset can be reliably determined. Acquired intangible assets and internally generated intangible assets are measured at cost. Cost of conversion includes all costs directly allocable to the production process as well as an appropriate portion of production-related overheads. Intangible assets with a finite useful life are systematically amortized using the straight-line method over their useful life.

Intangible assets include software and licenses, reacquired rights and key money with a finite and infinite useful life (one-off payments made to the previous tenant when leases are entered into for the Group's own retail stores in prime locations). Intangible assets with an infinite useful life are tested for impairment once a year. If the carrying amount of the asset is no longer recoverable, an impairment loss is recognized.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment that are used in business operations for longer than one year are measured at cost less accumulated depreciation. Cost of conversion includes all costs directly allocable to the production process as well as an appropriate portion of production-related overheads. The underlying useful lives correspond to the expected useful lives within the Group. Property, plant and equipment are generally depreciated using the straight-line method.

Buildings and leasehold improvements on third-party land are depreciated over the term of the underlying lease agreements or the lower useful lives. The present value of the expected cost for the disposal or decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a corresponding provision are satisfied.

The useful lives and depreciation methods used for property, plant and equipment are reviewed regularly to ensure that the methods and periods of depreciation are consistent with the expected economic benefit from the items of property, plant and equipment.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets (property, plant and equipment and intangible assets including goodwill) are assessed at every reporting date as to whether there is an indication of impairment ("triggering events"). If there is any such indication, the recoverable amount of the asset is estimated. Irrespective of whether there is any indication of impairment, intangible assets with indefinite useful lives (key money and brand rights) and goodwill acquired in a business combination are tested for impairment annually. The recoverable amount is the higher of fair value of the asset less costs to sell and value in use. The value in use is the present value of the expected cash flows. The expected cash flows are discounted using the after-tax weighted average cost of capital that reflects the risks specific to the asset. In determining fair value less costs to sell, external appraisals are taken into account, if available. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the smallest identifiable group of assets to which the asset belongs (cash-generating unit – CGU) is determined.

If the carrying amount of the asset or CGU exceeds the corresponding recoverable amount, an impairment loss is immediately recognized through profit or loss. If a CGU is impaired, the carrying amount of any goodwill allocated to the unit is reduced first. Any remaining impairment loss reduces the other non-current assets of the CGU pro rata.

If, following an impairment loss recognized in prior periods, an asset or CGU has a higher recoverable amount, the impairment loss is reversed up to the maximum of the recoverable amount. The reversal is limited to the amortized carrying amount which would have been determined had no impairment loss been recognized in the past. The impairment loss is reversed through profit or loss. Reversals of impairment losses recognized on goodwill are not permitted.

INVENTORIES

Raw materials and supplies as well as merchandise are generally measured at moving average cost. Work in progress and finished goods are measured at cost. Cost of conversion of finished goods includes direct material, direct labor, proportionate material and production overheads, and production-related amortization and depreciation insofar as this is a consequence of production. Also included are general administrative expenses, product development expenses, expenses for social facilities, expenses for voluntary social benefits and occupational pensions, to the extent that they are related to production and are incurred in the production period. Borrowing costs are expensed as incurred to the extent that the criteria for recognition in the carrying amount of an asset are not satisfied.

Inventories are carried at the lower of cost or realizable sales price less costs to sell.

LEASES

In the case of lease arrangements with the Group as lessee, economic ownership of the leased asset is allocated to the lessee in accordance with IAS 17 if substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the Group (finance lease). The depreciation methods and useful lives applied correspond to those for comparable assets acquired for a consideration. Leased assets are generally capitalized as at the date on which the agreement is entered into at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Initial direct costs are added to the carrying amount of the asset. The lease obligations, which correspond to the carrying amount of the leased assets and are amortized and measured in subsequent periods using the effective interest method, are reported under financial liabilities. The interest component of the lease liabilities is reported in the consolidated income statement over the term of the lease.

If economic ownership of a leased asset is attributable to the lessor (operating lease), the leased asset is recognized by the lessor. The corresponding lease payments are generally recognized as an expense on a straight-line basis over the lease term.

FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities, to the extent that they are currently relevant to the HUGO BOSS Group, are classified into the following categories:

a / Financial assets at fair value through profit or loss (FAHfT)
b / Loans and receivables (LaR)
c / Financial liabilities at fair value through profit or loss (FLHfT)
d / Other financial liabilities measured at amortized cost using the effective interest method (FLAC)
e / Available-for-sale assets at fair value (AfS)

Financial assets and liabilities are designated to the above categories upon initial recognition.

FINANCIAL ASSETS

Financial assets are recognized initially at fair value. This takes into account any directly attributable transaction costs relating to the acquisition.

Financial assets are measured at fair value through profit or loss if they were acquired for the purpose of selling them in the near future. This includes derivative financial instruments that are not designated to an effective hedging relationship in accordance with IAS 39. Gains and losses of financial assets are always recognized in profit and loss.

As a rule, the fair values recognized in the statement of financial position are the market prices of the corresponding financial assets. If these are not available, fair value is determined using generally accepted valuation models by reference to current market parameters. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, or discounted cash flow analysis and other valuation models.

Cash and cash equivalents recognized in the statement of financial position comprise cash in hand, balances with banks and other short-term deposits with an original term of less than three months; they are measured at amortized cost.

Trade receivables and other loans and receivables are subsequently measured at amortized cost (less any impairment losses), using the effective interest method where applicable. Gains and losses are recognized through profit or loss when the receivables are derecognized, impaired or settled.

Financial assets are measured at fair value through profit or loss if they were acquired for the purpose of selling them in the near future. This includes derivative financial instruments that are not designated to an effective hedging relationship in accordance with IAS 39. Gains and losses from financial assets measured at fair value through profit or loss are always posted to profit or loss.

Financial assets that are not measured at fair value through profit or loss are tested for impairment at every reporting date. If the carrying amount of a financial asset exceeds its fair value, it is reduced to the fair value. This decrease constitutes an impairment loss that is posted through profit or loss. An impairment loss recognized in profit or loss in a prior period is reversed if this is necessary on account of events occurring after it was originally recognized. Available-for-sale assets comprise non-derivative financial assets which are not allocated to any other measurement category and other financial assets which include non-consolidated subsidiaries.

A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset expire or are transferred. In the latter case, substantially all the significant risks and rewards of ownership of the financial assets must be transferred or control over the asset must be transferred.

FINANCIAL LIABILITIES

Financial liabilities are recognized initially at fair value. This takes into account any directly attributable transaction costs.

Derivatives that are not designated to an effective hedging relationship are measured at fair value through profit or loss. Negative fair values are reported under other financial liabilities. Gains and losses from subsequent measurement are recognized in profit or loss.

Trade payables and other financial liabilities are subsequently measured at amortized cost using the effective interest method. Any resulting gains and losses are posted to profit or loss when the liabilities are derecognized or extinguished.

A financial liability is derecognized when the obligation underlying the liability is discharged, canceled or expired.

HEDGING INSTRUMENTS

In the HUGO BOSS Group, derivative financial instruments are solely used to hedge interest rate and currency risks from the operating business.

When hedges are entered into, specific derivatives are allocated to hedged items. The requirements of IAS 39 for the designation of hedges are satisfied.

Pursuant to IAS 39, all derivative financial instruments are to be allocated to the "Financial assets measured at fair value through profit or loss" category and measured at fair value. Changes in the fair value of derivative financial instruments are generally recognized in profit or loss.

To the extent that the financial instruments used are effective hedges as part of a hedging relationship in accordance with the requirements of IAS 39 (cash flow hedges), fair value fluctuations during the term of the derivative do not affect profit or loss for the period. Instead, fair value fluctuations are recognized in equity in the corresponding reserve item. The cumulative amounts recognized in equity are recycled through profit or loss in the same period during which the hedged cash flows affect profit or loss.

PROVISIONS

Provisions are recognized if a past event has led to a current legal or constructive obligation to third parties which is expected to lead to a future outflow of resources that can be estimated reliably. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions for rebuild obligations in retail stores are recognized as liabilities at the present value of the best estimate of the amount required to settle the obligation. Corresponding assets are capitalized at the equivalent amount and depreciated over the term of the lease agreement. Provisions with a term of more than one year are discounted using a risk-free interest rate. Where the effect of the time value of money is material, the amount of the provision equals the present value of the expenditures expected to be required to settle the obligation.

PROVISIONS FOR PENSIONS

The measurement of pension provisions relates to the Group's obligation to provide benefit-based and contribution-based plans. IAS 19 mandates the use of the projected unit credit method for the provision of benefit-based plans, which takes into account future adjustments to salaries and pensions. The year-end present value determined using the projected unit credit method was compared to the fair value of plan assets in the employer's pension liability insurance to the extent that offsetting is permissible (asset ceiling). Actuarial gains and losses are immediately posted in full to other comprehensive income. Actuarial gains and losses are not reclassified from other comprehensive income to consolidated net income in subsequent years. The same applies to all effects of the asset ceiling. Net interest determined by multiplying the net pension liability by the discount rate underlying the gross pension obligation (DBO) is reported in the financial result. The difference between the actual interest return on plan assets and the anticipated return on plan assets obtained using the discount rate is posted separately to other comprehensive income. The service cost is reported under the relevant functional costs. The contributions from contribution-based pension schemes are recognized as expenses in the income statement on maturity.

RESTRUCTURING PROVISIONS

Restructuring expenses are recognized in the period in which they are incurred or in which the criteria for the recognition of a provision are satisfied. Early termination payments are recognized as an expense and an obligation if the Company has verifiably made a commitment under a formal plan by either offering termination benefits intended as an incentive for voluntary redundancy or has committed to early termination before the normal retirement age is reached.

SHARE-BASED COMPENSATION PROGRAMS

Share-based compensation programs are accounted for in accordance with IFRS 2. The HUGO BOSS Group's long-term incentive (LTI) program initiated with effect from January 1, 2016, for members of the Managing Board and eligible management staff is a cash-settled, share-based payment transaction. The expenses arising from the LTI and the liabilities for settling these benefits are recognized over the expected vesting period. This amount is recalculated on each reporting date and measured using an option price model. Any changes in the fair value are posted to profit and loss. The resultant expense is recorded within personnel expenses and the liability recognized as a provision for personnel expenses.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities are not recognized. They are disclosed in the notes to the financial statements, unless an outflow of resources embodying economic benefits is very unlikely. Contingent assets are likewise not recognized. They are disclosed in the notes to the financial statements if an inflow of economic benefits is probable.

EXERCISE OF JUDGMENT AND ESTIMATES WHEN APPLYING ACCOUNTING POLICIES

The preparation of the Group's consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. These estimates and judgments are made to obtain a fair presentation of the Group's net assets, financial position and results of operations. The main judgments and estimates used are specified in the notes to the financial statements.

BUSINESS COMBINATIONS/ACQUISITIONS OF OTHER BUSINESS UNITS

TAKEOVERS IN FISCAL YEAR 2016

In the fiscal year 2016, the HUGO BOSS Group took over a total of six stores and the related business activities in asset deals from former franchise partners in Malaysia and Hong Kong. Three stores in Malaysia were acquired with effect from January 1, 2016, and two outlets in Malaysia with effect from July 1, 2016, via HUGO BOSS Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia, which had been incorporated in the fiscal year 2015 and consolidated for the first time in 2016. One store in Hong Kong was acquired via HUGO BOSS Hong Kong Ltd., Hong Kong, China, with effect from May 1, 2016. The business acquisitions were made to support the expansion of the Group's own retail business in Asia/Pacific.

The following overview shows the preliminary allocation of the purchase price to the acquired net assets as well as the resulting goodwill:

(in EUR thousand)

	2016
Purchase consideration transferred	
Agreed purchase price	2,825
Total purchase price	**2,825**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	345
Property, plant and equipment	1,027
Inventories	615
Total assets	**1,987**
Goodwill	**838**

Control over the assets is achieved through payment of the agreed purchase price. Goodwill is attributable to the Asia/Pacific segment and contains non-separable intangible assets and expected synergy effects. The goodwill is not expected to be tax-deductible. Transaction costs of an immaterial amount arose and were recognized immediately through profit or loss in the consolidated income statement.

As part of the purchase price allocations, intangible assets were identified in the form of reacquired rights. These are rights to use the HUGO BOSS brand name that HUGO BOSS had granted to the franchise partners for the respective stores under franchise agreements. The franchise agreements were concluded at arm's length conditions.

If the stores had been purchased as of January 1, 2016, Group sales would have been EUR 878 thousand higher in the fiscal year 2016. The change in consolidated net income would have been immaterial. The additional Group sales generated by the takeovers came to EUR 4,859 thousand in the fiscal year 2016. The effects on consolidated net income were immaterial.

TAKEOVERS IN FISCAL YEAR 2015

In the fiscal year 2015, the HUGO BOSS Group took over a total of 46 stores and the related business activities in asset deals with former franchise partners in South Korea, China, New Zealand and Brazil. The stores in South Korea were acquired with effect from March 1, 2015, via HUGO BOSS Korea Ltd., South Korea, while the stores in China were acquired with effect from April 1, 2015, via HUGO BOSS China Retail Co. Ltd., Shanghai, China. One store in New Zealand was acquired via HUGO BOSS New Zealand Ltd., Auckland, New Zealand, with effect from September 1, 2015. One store in Brazil was acquired via HUGO BOSS do Brasil Ltda., São Paulo, Brazil, with effect from October 2, 2015. The business acquisitions were made to support the expansion of the Group’s own retail business in Asia/Pacific and the Americas.

The following overview shows the allocation of the purchase price to the acquired assets performed in the fiscal year 2015 as well as the resulting goodwill:

(in EUR thousand)

	2015
Purchase consideration transferred	
Agreed purchase price	21,891
Contingent purchase price payment (not paid yet)	1,060
Total purchase price	**22,951**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	591
Property, plant and equipment	2,980
Inventories	6,066
Total assets	**9,637**
Goodwill	**13,314**

Control over the assets was achieved through payment of the agreed purchase price.

A contingent purchase price payment was agreed upon in the contract with the former franchise partner in China. In the fiscal year 2016, a payment of EUR 167 thousand was made in this respect. In the event of the successful negotiation of leases, the former franchise partner is expected to receive additional payments of a total of EUR 922 thousand in the next two years. The fair value of the contingent purchase price payment stood at EUR 895 thousand as of December 31, 2016.

The takeover of the stores operated in China by a former franchise partner was based on a preliminary purchase price allocation, as not all the information required to measure the property, plant and equipment in full was available in the fiscal year 2015. The purchase price allocation was finalized in the first quarter of the fiscal year 2016 and, hence, within twelve months of the acquisition date. The final measurement of the property, plant and equipment acquired led to a reclassification of EUR 639 thousand from goodwill to property, plant and equipment in the fiscal year 2016. They had only an insignificant effect on the comparable values of the prior year, hence there was no retroactive adjustment.

As part of the purchase price allocations, intangible assets were identified in the form of reacquired rights. These are rights to use the HUGO BOSS brand name that HUGO BOSS had granted to the franchise partners for the respective stores under franchise agreements. The franchise agreements were concluded at arm’s length conditions.

Goodwill is attributable to Asia/Pacific and the Americas and contains non-separable intangible assets and expected synergy effects. The goodwill is not expected to be tax-deductible. Transaction costs of an immaterial amount arose and were recognized immediately through profit or loss in the consolidated income statement.

If the business acquisitions had taken place as of January 1, 2015, Group sales would have been EUR 2,999 thousand higher in the fiscal year 2015. The change in consolidated net income would have been immaterial. The additional Group sales generated by the business acquisitions came to EUR 12,153 thousand in the fiscal year 2015.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1| SALES AND COST OF SALES

(in EUR thousand)

	2016	2015
SALES TOTAL	**2,692,846**	**2,808,746**
Sales of goods	2,623,360	2,746,658
Licenses	69,486	62,088
COST OF SALES TOTAL	**915,384**	**955,930**
Cost of purchase	792,511	835,761
Cost of conversion	122,873	120,169

Cost of purchase contains the cost of materials, which corresponds to the amount of inventories expensed in the fiscal year. The line item also mainly includes freight-in and customs costs.

2| SELLING AND DISTRIBUTION EXPENSES

(in EUR thousand)

	2016	2015
Expenses for Group's own retail business, sales and marketing organization	921,702	872,529
Marketing expenses	179,315	190,456
Logistic expenses	74,437	73,566
TOTAL	**1,175,454**	**1,136,551**

The expenses for the Group's own retail business and the sales and marketing organization mostly relate to personnel and lease expenses for wholesale distribution and retail services. They also include sales-based commission, freight-out, customs costs, credit card charges and impairment losses of receivables.

The marketing expenses comprise expenses of EUR 195,203 thousand (2015: EUR 207,997 thousand) and income from the allocation of marketing expenses of EUR 15,888 thousand (2015: EUR 17,541 thousand). Income from the allocation of marketing expenses mainly contains costs for the allocation of the cost of store fittings, marketing materials and advertising and sponsorship activities.

Logistics expenses mainly include personnel and lease expenses for warehouse logistics.

In total, selling and distribution expenses contain other taxes of EUR 3,589 thousand (2015: EUR 3,180 thousand).

3| ADMINISTRATION EXPENSES

(in EUR thousand)

	2016	2015
General administrative expenses	207,795	199,389
Research and development costs	64,009	64,918
TOTAL	**271,804**	**264,307**

Administration expenses primarily comprise rent for premises, maintenance expenses, IT operating expenses and legal and consulting fees as well as personnel expenses in these functions.

Research and development costs in the HUGO BOSS Group primarily relate to the creation of collections. Total expenditure on research and development breaks down as follows: personnel expenses of EUR 46,137 thousand (2015: EUR 44,463 thousand), amortization of EUR 2,221 thousand (2015: EUR 2,280 thousand), and other operating expenses of EUR 15,651 thousand (2015: EUR 18,175 thousand).

Significant income was generated in the area of administration expenses by cross-charging of other costs and services amounting to EUR 9,557 thousand (2015: EUR 10,214 thousand) and from the reversal of provisions EUR 4,345 thousand (2015: EUR 5,148 thousand).

In total, administration expenses contain other taxes of EUR 5,461 thousand (2015: EUR 4,262 thousand).

4| OTHER OPERATING EXPENSES AND INCOME

In connection with the measures undertaken in the fiscal year 2016, to return to sustainable and profitable growth, HUGO BOSS has also conducted a detailed review of those stores that had diluted the Company's profitability in the past. The upshot of this was the decision made by HUGO BOSS as part of its catalog of measures to close around 20 freestanding stores by the end of 2017. Four of these closures had already been completed as of December 31, 2016. The expenses arising from the recognition of provisions and already settled payments stand at EUR 41,906 thousand and particularly relate to compensation payments to lessors, predominantly in Asia. In addition to this, impairments of EUR 6,299 thousand have been recognized on store fittings, predominantly in Asia and Europe. Expenses of EUR 48,204 thousand have therefore been incurred within the current fiscal year, which are reported within "Other operating expenses and income".

Expenses of EUR 10,610 thousand arose in connection with changes to the Managing Board in the reporting period. Additional other operating expenses arose as a result of organizational changes in the regions.

The net expense resulting from other operating expenses and income in the fiscal year 2016 was therefore a total of EUR 66,701 thousand. In the prior year, the net expenses amounted to EUR 4,246 thousand and were primarily related to the early dissolution of the agreement with trade agents and service providers as well as organizational changes in Europe and the Americas.

Other operating expenses and income include income of EUR 2,458 thousand (2015: income of EUR 8,504 thousand). Of this, EUR 1,057 thousand was the result of the sale of a showroom in France. The associated property, plant and equipment in the fiscal year 2015 was classified as non-current assets held for sale. Other income of EUR 1,401 thousand is largely attributable to the reversal of provisions from prior years. In the prior year, income related to the reversal of the provisions recognized in 2014 in connection with the sale of the production site in Cleveland, Ohio.

5| FINANCIAL RESULT

(in EUR thousand)

	2016	2015
Interest and similar income	1,567	1,190
Interest and similar expenses	(3,729)	(7,091)
Net interest income/expenses	**(2,162)**	**(5,901)**
Exchange rat gains/losses from receivable and liabilities	7,989	(8,252)
Gains/losses from hedging transactions	(12,977)	(8,581)
Other financial expenses/income	(717)	(5,004)
Other financial items	**(5,705)**	**(21,837)**
Financial result	**(7,867)**	**(27,738)**

Interest income includes income from bank deposits amounting to EUR 247 thousand (2015: EUR 351 thousand) and other interest income of EUR 1,320 thousand (2015: EUR 839 thousand).

Interest expenses include expenses from financial liabilities amounting to EUR 2,384 thousand (2015: EUR 4,076 thousand) as well as interest expenses of EUR 1,345 thousand (2015: EUR 3,015 thousand). In addition to loan interest, these items primarily include expenses for interest-rate swaps amounting to EUR 569 thousand (2015: EUR 1,028 thousand), net interest amount from pension provisions and interest expenses from the measurement of other non-current provisions at present value amounting to EUR 1,345 thousand (2015: EUR 1,450 thousand).

The exchange rate gains and losses from receivables and liabilities comprise exchange rate gains of EUR 25,795 thousand (2015: EUR 35,571 thousand) as well as exchange rate losses of EUR 17,806 thousand (2015: EUR 43,823 thousand). The result from hedging transactions contains the effects from the fair value measurement and derecognition of foreign exchange forwards and swaps.

6 | INCOME TAXES

(in EUR thousand)

	2016	2015
Current taxes	66,845	117,716
Deferred taxes	(4,854)	(17,160)
TOTAL	**61,991**	**100,556**

Income taxes report corporate income tax plus solidarity surcharge and trade tax of German Group companies together with the comparable income taxes of foreign Group companies.

At HUGO BOSS AG, the domestic income tax rate comes to 29.5% (2015: 29.5%). As in the prior year, the tax rates abroad range between 0% and 40%.

In fiscal year 2016, current income taxes include expenses relating to other periods amounting to EUR 1,218 thousand (2015: EUR 3,496 thousand), income relating to other periods of EUR 11,164 thousand (2015: EUR 484 thousand) and deductible withholding tax of EUR 2,945 thousand (2015: EUR 590 thousand).

The following table presents a reconciliation of the expected income tax expense that would be theoretically incurred if the current domestic income tax rate of 29.5% (2015: 29.5%) were applied at a Group level to the current income tax expense reported by the Group. The domestic income tax rate applied takes into account a corporate income tax rate (including solidarity surcharge) of 15.8% (2015: 15.8%) and a trade tax rate of 13.7% (2015: 13.7%).

(in EUR thousand)

	2016	2015
Pre-tax result	**255,636**	**419,974**
Anticipated income tax	75,540	124,102
Tax effect of permanent items	7,435	5,368
Tax rate-related deviation	(28,016)	(27,596)
Thereof effects of changes in tax rates	905	(7,318)
Thereof effects of addback deduction for local taxes	501	941
Thereof adjustment of tax amount to diverging local tax rate	(29,422)	(21,218)
Tax refund/back taxes	(7,001)	3,601
Deferred tax effects from prior years	(3,415)	(4,594)
Valuation allowance on deferred tax assets	17,242	(842)
Tax effects from distributable profit of subsidiaries	974	443
Other deviations	(768)	74
Income tax expenditure reported	**61,991**	**100,556**
Income tax burden	24%	24%

The income tax burden was reduced by tax-free income of EUR 1,624 thousand (2015: EUR 3,316 thousand). The opposite tax effects as a result of non-deductible business expenses come to EUR 5,811 thousand (2015: EUR 8,684 thousand).

Tax effects from the add-back/deduction for local taxes amounting to EUR 501 thousand (2015: income of EUR 941 thousand) stem for the most part from the rules on trade tax additions and deductions for the calculation of the trade tax assessment basis.

Other comprehensive income includes deferred tax income amounting to EUR 1,657 thousand (2015: expenses of EUR 1,896 thousand). This amount in the fiscal year 2016 is calculated from the recognition of actuarial gains and losses from pension provisions in equity (2015: expenses of EUR 1,509 thousand). In the fiscal year 2015, EUR 387 thousand also went toward the recognition directly in equity of fluctuations in the fair value of derivatives designated as hedging relationships.

Deferred tax assets and liabilities are presented on a net basis if they pertain to the same taxable entity and the same taxation authority. Deferred taxes in the consolidated statement of financial position are related to the following items:

(in EUR thousand)

	2016		2015	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Provisions and other liabilities	39,301	(24,293)	41,188	(45,565)
Unused tax losses	32,871	0	23,037	0
Inventory measurement	48,915	(3,159)	58,187	(3,115)
Recognition and measurement of non-current assets	49,864	(13,997)	53,367	(14,315)
Receivables measurement	6,788	(399)	8,637	(2,427)
Market valuation of financial instruments	886	(922)	1,034	(94)
Retained earnings of subsidiaries	0	(4,382)	0	(3,369)
Other differences in recognition and measurement	5,719	(1,055)	823	(971)
	184,344	**(48,207)**	**186,273**	**(69,856)**
Impairments[1]	(20,645)	0	(9,027)	0
Netting	(39,014)	39,014	(62,080)	62,080
TOTAL	**124,685**	**(9,193)**	**115,166**	**(7,776)**

[1] Including unrecognized unused tax losses.

Of the deferred tax assets, EUR 64,224 thousand (2015: EUR 59,656 thousand) are non-current, while EUR 37,826 thousand (2015: EUR 44,106 thousand) of the deferred tax liabilities are non-current. The full amount is reported as non-current in the statement of financial position.

Distributable profits at foreign subsidiaries are to be paid out in the coming years, partly to Germany. The tax expense attributable to the distribution amounting to EUR 1,496 thousand (2015: EUR 1,200 thousand) was recognized as a deferred tax liability. In addition, deferred taxes were recognized for distributable profits from subsidiaries paid out to other subsidiaries to the extent that withholding tax is payable on future dividends. Deferred tax liabilities of EUR 2,887 thousand (2015: EUR 2,169 thousand) were recognized for these withholding tax expenses.

Further deferred tax liabilities were not recognized on distributable profits at subsidiaries amounting to EUR 502,592 thousand (2015: EUR 374,351 thousand) as the present intention is to permanently reinvest these profits. If the profits were to be distributed in Germany, 5% would be subject to taxation in Germany or possibly trigger withholding tax in other countries. Distributions thus as a rule lead to an added tax expense. Estimation of unrecognized deferred tax liabilities on undistributed profits would require an unreasonable effort.

Deferred tax assets on losses carried forward and interest carryforwards were included insofar as the corporate planning yields a profit in subsequent years against which the losses carried forward can be used or insofar as deferred tax liabilities exist. Of these, as of the balance sheet date deferred tax assets were recognized in the amount of EUR 46,008 thousand (2015: EUR 15,963 thousand) within those companies, which made a loss during the reporting period or prior period.

Unused income tax losses mainly pertain to foreign Group companies and break down as follows:

(in EUR thousand)

	2016	2015
Expiry within		
1 year	383	997
2 years	2,411	5,113
3 years	9,738	7,875
4 years	12,748	3,630
5 years	19,643	15,262
After 5 years	22,500	23,058
unlimited carryforward	73,945	27,405
TOTAL	**141,368**	**83,340**

As in prior fiscal years, a corresponding deferred tax asset of EUR 13,705 thousand was recognized on unused tax losses as at December 31, 2016 (2015: EUR 14,010 thousand). In fiscal year 2016, no deferred taxes were recognized on unused tax losses of EUR 80,612 thousand (2015: EUR 27,907 thousand).

It was judged that deferred tax assets are to be recognized on unused tax losses to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses can be offset. The probability of future availability is assessed in the light of various factors such as future taxable earnings in the forecast periods and historical earnings. HUGO BOSS applies a forecast period of a maximum of five years for this purpose. Actual figures may differ from the estimates.

The income tax assets relate mainly to tax advance payments and reimbursement claims. These are based on reasonable estimates to the extent that reimbursement by the financial administration office is judged to be largely probable on the basis of relevant case law. This assessment also takes into account the estimates of local external experts.

7| EARNINGS PER SHARE

There were no shares outstanding that could have diluted earnings per share as of December 31, 2016, or December 31, 2015.

(in EUR thousand)

	2016	2015
Net income attributable to equity holders of the parent company	193,513	319,355
Average number of shares outstanding[1]	69,016,167	69,016,167
Earnings per share (EPS) in EUR[2]	2.80	4.63

[1] Not including own shares.
[2] Basic and diluted earnings per share.

8| ADDITIONAL DISCLOSURES TO THE CONSOLIDATED INCOME STATEMENT

PERSONNEL EXPENSES

(in EUR thousand)

	2016	2015
Cost of sales	93,170	93,290
Selling and distribution expenses	338,464	321,715
Administration expenses	154,221	152,031
Other operating expenses/income	18,714	(4,243)
TOTAL	**604,569**	**562,793**

The net expense resulting from other operating expenses and income in the fiscal year 2016 primarily arose in connection with changes to the Managing Board as well as organizational changes in the regions. In the prior year, income related to the reversal of the provisions recognized in 2014 in connection with the sale of the production site in Cleveland, Ohio.

(in EUR thousand)

	2016	2015
Wages and salaries	517,174	478,320
Social security	80,342	78,813
Expenses and income for retirement and other employee benefits	7,053	5,660
TOTAL	**604,569**	**562,793**

The average headcount for the year was as follows:

EMPLOYEES

	2016	2015
Industrial employees	5,048	5,043
Commercial and administrative employees	10,785	10,263
TOTAL	**15,833**	**15,306**

ORDINARY DEPRECIATION

(in EUR thousand)

	2016	2015
Cost of sales	6,339	6,020
Selling and distribution expenses	102,255	93,398
Administration expenses	30,226	24,955
TOTAL	**138,820**	**124,373**

COST OF MATERIALS

In the past fiscal year, the cost of materials came to EUR 791,558 thousand (2015: EUR 765,699 thousand).

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9| INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

(in EUR thousand)

2016	**Gross Value January 1, 2016**	Currency translation effects	Additions	Disposals	Transfers	**Gross Value December 31, 2016**
Software, licenses and other rights	**199,074**	(1,940)	28,904	(1,845)	75	**224,268**
Brand rights	**14,992**	0	0	0	0	**14,992**
Key Money	**45,130**	(738)	3,160	(532)	376	**47,396**
Internally developed Software	**5,603**	0	0	0	0	**5,603**
Goodwill	**53,928**	73	838	0	(639)	**54,200**
Intangible Assets	**318,727**	**(2,605)**	**32,902**	**(2,377)**	**(188)**	**346,459**
Lands and buildings	**259,862**	(29,127)	1,265	(3,209)	3,013	**231,804**
Technical equipment and machinery	**83,532**	32	3,664	(7,494)	1,191	**80,925**
Other equipment, operating and office equipment	**737,998**	24,250	113,777	(40,702)	7,975	**843,298**
Contruction in progress	**15,085**	(1)	5,161	(47)	(11,021)	**9,177**
Property, Plant and Equipment	**1,096,477**	**(4,846)**	**123,867**	**(51,452)**	**1,158**	**1,165,204**
TOTAL	**1,415,204**	**(7,451)**	**156,769**	**(53,829)**	**970**	**1,511,663**

2015	**Gross Value January 1, 2015**	Currency translation effects	Additions	Disposals	Transfers	**Gross Value December 31, 2015**
Software, licenses and other rights	**170,799**	2,631	30,885	(6,135)	894	**199,074**
Brand rights	**14,992**	0	0	0	0	**14,992**
Key Money	**34,088**	1,246	9,571	0	225	**45,130**
Internally developed Software	**5,603**	0	0	0	0	**5,603**
Goodwill	**40,032**	582	13,314	0	0	**53,928**
Intangible Assets	**265,514**	**4,459**	**53,770**	**(6,135)**	**1,119**	**318,727**
Lands and buildings	**265,506**	(15,039)	24,853	(15,152)	(306)	**259,862**
Technical equipment and machinery	**80,019**	556	5,585	(984)	(1,644)	**83,532**
Other equipment, operating and office equipment	**602,617**	45,733	122,259	(35,617)	3,006	**737,998**
Contruction in progress	**5,250**	(151)	13,882	(43)	(3,853)	**15,085**
Property, Plant and Equipment	**953,392**	**31,099**	**166,579**	**(51,796)**	**(2,797)**	**1,096,477**
TOTAL	**1,218,906**	**35,558**	**220,349**	**(57,931)**	**(1,678)**	**1,415,204**

	Accumulated amortization January 1, 2016	Currency translation effects	Depreciation	Impairment	Disposals	Transfers	**Accumulated amortization December 31, 2016**	**Net Value December 31, 2016**
	109,102	(1,376)	23,460	0	(1,825)	3	**129,364**	**94,904**
	0	0	0	0	0	0	**0**	**14,992**
	20,287	(317)	2,220	2,833	(532)	0	**24,491**	**22,905**
	5,603	0	0	0	0	0	**5,603**	**0**
	1,133	419	0	0	0	0	**1,552**	**52,648**
	136,125	**(1,274)**	**25,680**	**2,833**	**(2,357)**	**3**	**161,010**	**185,449**
	124,670	(16,895)	12,900	0	(2,917)	(48)	**117,710**	**114,094**
	63,920	47	4,835	0	(6,987)	0	**61,815**	**19,110**
	468,096	16,814	95,405	27,526	(38,829)	386	**569,398**	**273,900**
	3	0	0	0	0	0	**3**	**9,174**
	656,689	**(34)**	**113,140**	**27,526**	**(48,733)**	**338**	**748,926**	**416,278**
	792,814	**(1,308)**	**138,820**	**30,359**	**(51,090)**	**341**	**909,936**	**601,727**

	Accumulated amortization January 1, 2015	Currency translation effects	Depreciation	Impairment	Disposals	Transfers	**Accumulated amortization December 31, 2016**	**Net Value December 31, 2016**
	94,248	1,266	18,769	0	(6,073)	892	**109,102**	**89,972**
	0	0	0	0	0	0	**0**	**14,992**
	16,532	430	1,782	1,154	0	389	**20,287**	**24,843**
	5,603	0	0	0	0	0	**5,603**	**0**
	1,133	0	0	0	0	0	**1,133**	**52,795**
	117,516	**1,696**	**20,551**	**1,154**	**(6,073)**	**1,281**	**136,125**	**182,602**
	135,593	(11,821)	16,155	0	(15,174)	(83)	**124,670**	**135,192**
	61,296	536	4,635	0	(903)	(1,644)	**63,920**	**19,612**
	373,151	29,614	83,032	16,572	(33,946)	(327)	**468,096**	**269,902**
	3	0	0	0	0	0	**3**	**15,082**
	570,043	**18,329**	**103,822**	**16,572**	**(50,023)**	**(2,054)**	**656,689**	**439,788**
	687,559	**20,025**	**124,373**	**17,726**	**(56,096)**	**(773)**	**792,814**	**622,390**

SOFTWARE, LICENSES AND OTHER RIGHTS

The Columbus IT project launched in the fiscal year 2003 led to the acquisition of new software covering all areas of enterprise resource management. Over the full duration of the project, intangible assets with a historical cost of EUR 80,590 thousand (2015: EUR 77,199 thousand) were capitalized in connection with the ERP system, of which EUR 59,159 thousand (2015: EUR 52,272 thousand) had already been amortized as of the reporting date. The remaining amortization period reduced to 3.1 years (2015: 3.9 years). Apart from the aforementioned software, other software licenses totaling EUR 61,081 thousand (2015: EUR 50,029 thousand) are included, whose remaining amortization period is 4.3 years (2015: 5.6 years). The average useful life of software and licenses is in between 3 to 20 years.

In addition, the line item "Software, licenses and other rights" contains intangible assets from purchase price allocations. Among others, business licenses and repurchased franchise rights with a useful life of 1 to 10 years were included.

BRAND RIGHTS

The reported brand rights amounting to EUR 14,992 thousand (2015: EUR 14,992 thousand), which are primarily attributable to the brand rights acquired for the use of the brand names BOSS, HUGO and HUGO BOSS in the United States, are classified as assets with infinite useful lives. The infinite useful life stems from the estimate of an indefinite use of the registered brand name.

KEY MONEY

Key money totaling EUR 22,905 thousand (2015: EUR 24,852 thousand) was recognized as of the reporting date. Of that amount, EUR 5,832 thousand (2015: EUR 6,397 thousand) pertains to key money with an infinite useful life and EUR 17,073 thousand (2015: EUR 18,446 thousand) to key money with a finite useful life. As of December 31, 2016, key money with an infinite useful life only concerns the Group's own retail stores in France at EUR 5,382 thousand (2015: EUR 6,397 thousand). The key money with a finite useful life has a remaining amortization period of 9.0 years (2015: 9.1 years) and mainly refers to the Group's own retail stores in Great Britain, Switzerland and Spain. Key money is written down on a straight-line basis over the term of the lease agreement in question.

PROPERTY, PLANT AND EQUIPMENT

Land charges in connection with land and buildings amount to EUR 35,009 thousand (2015: EUR 39,118 thousand).

Impairment losses of EUR 27,526 thousand (2015: EUR 16,572 thousand) is attributable to property, plant and equipment. Most of the impairment losses were recognized on property, plant and equipment for individual areas of the Group's own retail stores after impairment testing.

In terms of property, plant and equipment, buildings are generally amortized over a useful life of 30 years, technical facilities and machines over a useful life of 5 to 19 years, and other facilities and operating and office equipment over 2 to 15 years.

PURCHASE OBLIGATIONS

In addition, there are purchase obligations for investments amounting to EUR 2,907 thousand (2015: EUR 7,759 thousand). Of this amount, EUR 2,261 thousand (2015: EUR 5,469 thousand) is attributable to property, plant and equipment and EUR 647 thousand to intangible assets (2015: EUR 2,290 thousand). The obligations as of December 31, 2016, are due for settlement within one year.

10| IMPAIRMENT TESTING IN THE HUGO BOSS GROUP

An impairment test must be carried out for all assets within the scope of application of IAS 36, insofar that there is any evidence of impairment ("triggering events") as of the reporting date. Regardless of the existence of any triggering events, the following non-current assets were tested for impairment in the course of annual impairment testing on the reporting date of December 31, 2016:

- Systematically depreciated property, plant and equipment and amortized intangible assets at the level of the Group's own retail stores
- Other intangible assets with infinite useful lives (key money)
- Brand rights with an infinite useful life
- Goodwill

With the 2016 consolidated financial statements, the HUGO BOSS Group has made a change to the valuation model used during the annual impairment test to assess the recoverability of non-current assets using a discounted cash flow model. In this regard, as of the current fiscal year also the gross profit margin of the preceding units as well as the joint assets at the level of the subsidiary or at the level of the DOS have been included. The Management believes that this change creates a more reliable illustration of the Group's net assets, financial position and results of operations. It had only an insignificant effect on the net assets, financial position and results of operation in the prior year, hence the prior year's value was not adjusted retrospectively.

SYSTEMATICALLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT AND AMORTIZED INTANGIBLE ASSETS AT THE LEVEL OF THE GROUP'S OWN RETAIL STORES

In the HUGO BOSS Group, the **Group's own retail stores (DOS)** have been identified as a CGU, i.e. the smallest group of assets that can independently generate cash flows.

The DOS assets amortized or depreciated on a systematic basis are tested for impairment if there are indications or changes to planning assumptions suggesting that the carrying amount of the assets is not recoverable. For this purpose, after preparing the annual budget plan, HUGO BOSS conducts a triggering event test at DOS level. If defined year-on-year sales and profitability indicators are not reached, the non-current assets of the DOS in question are tested for impairment.

The recoverable amount of the DOS is determined by calculating the value in use on the basis of discounted cash flow models. The planned cash flows for the DOS from the bottom-up one-year budget approved by the Management of HUGO BOSS AG are used for calculating the value in use. The forecast period is derived based on the expected useful lives for all DOS and is reassessed annually. After the bottom-up budget, the values for the remaining useful lives are determined based on sales and cost developments specific to each country and CGU. The growth rates used for this purpose are based on the nominal, expected retail growth in each respective market for the corresponding planning year. Single-digit growth rates were thus determined for all DOS. At the end of the residual useful life, it is assumed that the respective DOS is wound up and that the operating assets are sold. In the calculation of the value in use of the DOS, cash flows were discounted using a weighted average cost of capital of between 3.7% and 14.6% (2015: between 3.5% and 18.1%). This was based on a risk-free interest rate with an equivalent term of -0.4% (2015: 0.3%) and a market risk mark-up of 6%. Alternatively, the recoverable amount of the DOS is determined with the assistance of external reports which calculate the fair value less the costs to sell at level 3 of the fair value hierarchy in accordance with IFRS 13. Depending on the underlying legal framework and the available information, the fair value, particularly for key money with a finite useful life, is determined by reference to previous and comparable transactions using a multiplication process or as the present value of the differences in rents between the current lease and current market rents; in this case, the valuation period is determined on the basis of the lease.

Scheduled DOS impairment testing in the past fiscal year resulted in impairment losses on non-current assets of EUR 24,060 thousand (2015: EUR 17,726 thousand), which were recognized through profit or loss under "Selling and distribution expenses". The impairment losses are primarily attributable to retail store locations in the Americas and Europe. In connection with the decision taken in mid-2016 to close around 20 freestanding retail stores worldwide which had diluted the Group's profitability in the past, impairments were recognized on store fittings in the amount of EUR 6,299 thousand (2015: EUR 0 thousand), which were recognized through profit or loss under "Other operating expenses and income".

Based on the calculation of the fair value by external assessors, for the DOS with allocated key money with an infinite useful life impairment losses of EUR 729 thousand were allocated in the fiscal year 2016 (2015: EUR 450 thousand).

GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

The assessment of impairment is based on detailed planning of results of operations, of the statement of financial position and of investments for the next three years for all units of the Group, which is prepared annually in the company-wide budget planning process and approved by the Supervisory Board, taking account of the current business situation. For periods beyond the budget's planning horizon, a long-term growth rate is set to project future cash flows in the detailed planning period of two additional years. The long-term growth rates used for this purpose are consistent with external sources of information. Investment and trade net working capital planning is based on budget planning data and is extrapolated on the basis of historical experience. The cost of capital for the HUGO BOSS Group determined using an after-tax WACC model that discounts all forecast cash flows in the local currency, while factors in both general market and country-specific risk mark-ups (sovereign risk mark-up) as well as a currency risk mark-up (inflation risk mark-up). The after-tax cost of capital rate used as of December 31, 2016, is based on a risk-free interest rate of 0.5% (2015: 1.5%) and a market risk mark-up of 6.0% (2015: 6.0%).

The following table presents the carrying amounts as well as the main assumptions underlying the calculation of the value in use or fair value less costs to sell the goodwill and intangible assets with infinite useful lives assigned to each group of CGUs. The **goodwill** created in previous fiscal years as a result of the takeover of the monobrand stores of former franchise partners is allocated to the relevant sales units (groups of CGUs). As of this fiscal year, production units are no longer considered as independent CGUs but as joint assets. The joint assets are taken into account in the impairment tests of the units. The Management believes that this change creates a more reliable illustration of the Group's net assets, financial position and results of operations. It had only an insignificant effect on the net assets, financial position and results of operation in the prior year, hence the prior year's value was not adjusted retrospectively. The **intangible assets with infinite useful lives** are pooled at the level of the respective country. The key money with an infinite useful life is allocable to various retail locations in France; viewed individually, these are not material. Brand rights for the use of the brand names in the U.S. and Italian markets are tested for impairment at country level.

(in EUR thousand)

	Carrying amount		Assumptions	
	Goodwill	Intangible assets with indefinite useful life	WACC	Long-term growth rate
2016				
DOS within the sales unit France	0	5,832	5.3%	3.4%
Sales unit Macau	6,818	0	5.7%	3.6%
Sales unit Australia	8,724	0	6.2%	3.5%
Sales unit South Korea	7,439	0	6.9%	3.5%
Sales unit China	8,704	0	6.2%	3.7%
Sales unit U.S.A.	266	13,615	6.8%	2.9%
Sales unit Italy	0	1,377	6.4%	2.5%
Other sales units	20,696	0		
TOTAL	**52,647**	**20,824**	**5.3–6.9%**	**2.5–3.7%**
2015				
DOS within the sales unit France	0	6,397	5.9%	3.2%
Sales unit Macau	6,610	0	6.3%	3.4%
Sales unit Australia	8,550	0	6.9%	4.9%
Sales unit South Korea	7,372	0	7.2%	3.7%
Sales unit China	10,188	0	6.8%	5.0%
Sales unit U.S.A.	257	13,615	7.1%	3.4%
Sales unit Italy	0	1,377	6.8%	2.5%
Other sales and production units	19,818	0		
TOTAL	**52,795**	**21,389**	**5.9–7.2%**	**2.5–5.0%**

The recoverable amount of the respective group of CGUs is derived from the value in use determined using forecast cash flow based on medium-term financial budgets approved by Management. Restructuring to which the Group has not yet committed to and investments to enhance the earnings power of the group of CGUs tested that is not allocable to current business operations are not taken into account. After the detailed planning phase, country-specific sales growth rates derived from normal retail growth are used.

No impairment losses were recognized on the goodwill in fiscal year 2016 and in the prior year.

The recoverable amount of brand rights with an indefinite life is determined on the basis of their fair value less costs to sell and classified at level 3 of the fair value hierarchy pursuant to IFRS 13. This is based on a sales forecast for the respective market approved by management as part of the budget process. Country-specific sales growth rates are also used. After the five-year detailed planning phase, planned sales are extrapolated using a long-term nominal retail growth rate for each of the respective markets.

No impairment losses were recognized on the brand rights with indefinite useful lives in fiscal years 2016 and 2015.

KEY ASSUMPTIONS USED TO CALCULATE THE VALUE IN USE AND FAIR VALUE LESS COSTS TO SELL

The following key assumptions, estimation uncertainties and judgments by management underlie the calculation of the value in use and fair value less costs to sell off the aforementioned assets:

- Nominal, long-term retail growth
- Gross profit margin
- Fixed cost development
- Discount rates
- Expected useful life of DOS

Management assumes that the underlying assumptions and estimates are appropriate. However, changes in the economic environment and the industry-specific growth assumptions can have consequences for impairment testing resulting in the need to recognize additional impairment losses or to reverse impairment losses in the future.

Estimation of growth rates – Growth rates are generally derived from published industry-related market research that is based on country-specific nominal retail growth. These growth rates were mainly factored in after the detailed planning phase and in the terminal value used to calculate the value in use. Based on past developments and the Management's expectations with regard to market trends, growth rates were applied that differ from the country-specific nominal retail growth. For the impairment tests of goodwill in China and South Korea, growth rates above the country-specific nominal retail growth were assumed in the following year due to the price adjustments made in Asia.

Estimation of gross profit margin – The planned gross profit margin factors in both efficiency improvements and margin shifts due to differences in the sales mix of the distribution channels. A constant gross profit margin is assumed after the detailed planning phase.

Fixed cost trends – The fixed cost trends are derived from growth of real gross domestic product in each country and the inflation rate in each country.

Discount rates – The discount rates reflect current market assessments of the risks specific to each CGU. This takes into account the interest effect and the risks specific to the assets.

Useful life of the DOS – The forecast period is based on the average remaining terms of the lease agreements, which are determined and reviewed annually. Prolongation options are taken into account when determining the average remaining terms.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

As of December 31, 2016, scenarios for critical measurement parameters such as the discount rates used and the growth rates underlying forecast cash flows were determined to verify the values in use determined. The Management of the HUGO BOSS Group considers it possible for the discount rate to increase by 10.0% on average in relative terms. In addition, for the groups of CGUs under review to which goodwill is allocated, an annual relative divergence in growth rates of 15.0% during the detailed planning phase is deemed possible. Furthermore, for the groups of CGUs to which goodwill is allocated, a 15.0% decrease in the relative sales growth rates underlying the extrapolation of forecast cash flows after the detailed planning phase is deemed possible.

In the case of a 10.0% increase in the discount rate, the values in use of all items of goodwill would exceed their carrying amounts as in the prior year.

In the event of a 15.0% reduction in the annual growth rates during the detailed planning phase, the values in use of all items of goodwill would exceed their carrying amounts. With respect to the goodwill for the groups of CGUs, there was a hypothetical write-down to be undertaken in the prior year in the event of a reduction of annual growth rates of 6% in South Korea or 12% in China, provided that costs remained the same.

In the event of a 15.0% reduction in the growth rate of sales used to extrapolate the forecast cash flow after the detailed planning period, the values in use of all items of goodwill would exceed their carrying amounts as in the prior year.

11| FINANCIAL AND OTHER ASSETS

(in EUR thousand)

	2016			2015		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Financial assets	49,331	28,339	20,992	50,969	29,017	21,952
Tax refund claims and prepayments	14,474	14,418	56	16,977	16,288	689
Other assets	86,117	81,884	4,233	92,204	88,294	3,910
Other financial assets	35	0	35	496	0	496
TOTAL	**149,957**	**124,641**	**25,316**	**160,646**	**133,599**	**27,047**

Financial assets include positive market values of currency hedges amounting to EUR 2,047 thousand (2015: EUR 6,677 thousand) as well as rent deposits for the Group’s own retail stores of EUR 10,052 thousand (2015: EUR 14,053 thousand). Financial assets also include receivables from credit card companies amounting to EUR 21,563 thousand (2015: EUR 16,085 thousand).

The tax refund claims and tax prepayments are mostly VAT receivables.

Other assets contain refund claims from returns in the amount of EUR 16,098 thousand (2015: EUR 17,463 thousand), bonus receivables from supplier arrangements and prepayments for service agreements and leases. Impairment losses of EUR 246 thousand were recognized on other assets in the past fiscal year (2015: EUR 90 thousand).

Other financial assets include interests in entities under joint control accounted for using the equity method. The carrying amount of shares in the property companies whose activities consist of the leasing of buildings and associated properties remains unchanged at EUR 35 thousand. The maximum default risk is equal to this capital contribution. Other financial assets in the fiscal year 2015 also included the investment measured at amortized cost in subsidiaries which have been established but are not consolidated due to their immateriality.

The following is a summary of financial information for entities under joint control accounted for using the equity method. The information contained therein relates to 100 % of the associates and not to the Group's share of those associates.

(in EUR thousand)

	Dec. 31, 2016[1]	Dec. 31, 2015[2]
Non-current assets	108,899	118,285
Current assets	823	1,006
Liabilities	121,471	127,947
Sales	10,929	10,845
Depreciation and amortisation	(9,655)	(9,914)
Other interest and similar income	0	3
Interest and similar expenses	(4,102)	(4,158)
Net income/(loss)	(3,064)	(3,515)

[1] Figures are based on the preliminary financial statements as of December 31, 2016.
[2] Prior-year figures are based on the final financial statements as of December 31, 2015. Different values in the annual report 2015 occur due to preliminary end-of-year figures as at December 31, 2015.

12| INVENTORIES

(in EUR thousand)

	2016	2015
Finished goods and merchandise	523,067	512,056
Raw materials and supplies	39,572	41,719
Work in progress	5,332	5,734
TOTAL	**567,971**	**559,509**

The carrying amount of inventories recognized at net realizable value amount to EUR 74,863 thousand (2015: EUR 67,594 thousand). In the fiscal year 2016, impairment losses of EUR 22,327 thousand (2015: EUR 25,954 thousand) were recognized particularly on finished goods and raw material. This was counterbalanced by reversals of impairment losses of EUR 20,041 thousand (2015: EUR 15,208 thousand), following the sale of finished goods and raw materials on which impairment losses had previously been recognized. Impairment losses on inventories and the reversal of impairment losses previously charged resulted in net expense of EUR 2,231 thousand (2015: EUR 10,746 thousand). This is included in the cost of sales.

Significant estimates were made for inventories as described below: Write-downs provide for inventory risks from slow-moving goods and the resulting reduction in marketability. Write-downs are recognized on raw materials based on analyses of range of coverage and movement rate. Unfinished goods, finished goods and merchandise are measured based on the net realizable value still to be recovered through the Group's own sales channels. Merchandise and finished goods are tested for impairment on the basis of analyses of movement rate, range of coverage and net realizable value.

13| TRADE RECEIVABLES

(in EUR thousand)

	2016	2015
Trade receivables, gross	243,102	254,898
Accumulated allowance	(14,926)	(15,284)
Trade receivables, net	**228,176**	**239,614**

As at December 31, the ageing analysis of trade receivables is as follows:

(in EUR thousand)

	2016	2015
Trade receivables, net	**228,176**	**239,614**
Thereof neither overdue, nor impaired	**182,511**	**177,148**
Thereof overdue, but not impaired	**39,075**	**56,682**
≤ 30 days	23,013	37,759
30 to 60 days	9,785	12,042
60 to 90 days	6,277	6,881
90 to 120 days	0	0
120 to 180 days	0	0
180 to 360 days	0	0
> 360 days	0	0
Thereof: overdue and impaired	**6,590**	**5,784**

Trade receivables are non-interest-bearing and are generally due between 30 and 90 days. Valuation allowances on doubtful debts developed as follows:

(in EUR thousand)

	2016	2015
Allowances for doubtful accounts as of January 1	**15,284**	**15,876**
Additions	8,660	4,454
Use	(5,644)	(1,940)
Release	(3,667)	(2,740)
Currency differences	293	(366)
Allowances for doubtful accounts as of December 31	**14,926**	**15,284**

Any expenses and income from allowances on trade receivables are reported under selling and distribution expenses.

Pursuant to the general terms and conditions for sales, ownership of the goods supplied is transferred to wholesale partners upon complete payment of all receivables. No collateral has been provided in the Group for individual receivables.

The recoverability of trade receivables is assessed based on the estimated likelihood of default. Accordingly, receivables from wholesale customers on whose assets insolvency proceedings have been initiated are written off in full (to the extent that any collateral provided is not recoverable) by recognizing individual bad debt allowances. Individual bad debt allowances ranging between 1% and 100% are recognized on overdue receivables. All subsidiaries of the HUGO BOSS Group have to prepare an analysis of the aging structure of their trade receivables. This permits the recognition of risk-adjusted valuation allowances. External appraisals on the value of collateral were also obtained in the course of assessing the recoverability of receivables.

In the event of the deterioration of the financial position of wholesale customers and concession partners, the amounts actually derecognized can exceed the bad debt allowances already recognized, which can have an adverse impact on the results of operations.

14| CASH AND CASH EQUIVALENTS

(in EUR thousand)

	2016	2015
Balances with banks and other cash items	70,525	74,380
Checks/ec-cash	1,032	650
Cash in hand	11,933	6,379
TOTAL	**83,490**	**81,409**

15| EQUITY

Equity is made up of subscribed capital, own shares, capital reserve, retained earnings and accumulated other comprehensive income. Retained earnings contain profits that were generated in the past by the entities included in the consolidated financial statements and effects from the revaluation of pension provisions. Accumulated other comprehensive income contains the differences arising from translation outside profit and loss of the foreign currencies used for the financial statements of foreign subsidiaries as well as the effects of the measurement outside profit and loss of cash flow hedges after tax.

SUBSCRIBED CAPITAL

Capital Management

The fully paid in share capital of HUGO BOSS AG is unchanged and amounts to EUR 70,400 thousand as of December 31, 2016. It is made up of 70,400,000 no-par value ordinary shares. The shares have an imputed nominal value of EUR 1 each.

The Management Board of HUGO BOSS AG may with the Supervisory Board's consent increase the share capital by up to EUR 35,200 thousand until May 12, 2019 by issuing 35,200,000 new registered shares on a cash and/or non-cash basis once or repeatedly (Authorized Capital). Generally, shareholders have a subscription right.

The primary objective of the HUGO BOSS Group's capital management is to secure the financial headroom to make value-enhancing investments for further business growth and, in turn, to increase the enterprise value in a sustainable manner.

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. The main levers for improving free cash flow are increasing sales and operating income, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items. Strict management of trade net working capital and value-oriented investment activities also support the development of free cash flow. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares.

No changes were made to the objectives, policies and methods as of December 31, 2016, and December 31, 2015.

In addition, efficient use of capital and the capital structure are regularly monitored based on the leverage ratio, i.e. the ratio of net financial liabilities to EBITDA before special items:

(in EUR thousand)

	2016	2015
Liabilities due to banks	196,674	163,604
Cash and cash equivalents	(83,490)	(81,409)
Net financial liabilities	**113,184**	**82,195**
Operating profit	**493,085**	**594,057**
Total leverage	**0.2**	**0.1**

This ratio stood at 0.2 on the reporting date and was thus substantially lower than the maximum permissible value pursuant to the covenant agreed as part of the syndicated loan agreement refinanced in the fiscal year 2015.

OWN SHARES

The number of own shares amounts to 1.383.833 (2015: 1.383.833). The overall percentage amounts to 2,0% of subscribed capital (2015: 2,0%).

At the Annual Shareholder's Meeting of May 12, 2015, a resolution was passed authorizing the Managing Board to aquire at the Company's own shares up to a total of 10% of the current share capital until May 11, 2020.

16| DIVIDEND

Pursuant to the AktG ["Aktiengesetz": German Stock Corporation Act], the dividend that can be distributed to the shareholders is measured based on the net retained profit reported in the financial statements of HUGO BOSS AG amounting to EUR 183,040 thousand. The net retained profit of HUGO BOSS AG for 2016 proposed to the Annual Shareholders' Meeting for distribution amounts to EUR 179,442 thousand. This corresponds to EUR 2.60 per share. It is also proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 3,598 thousand be carried forward to the new account.

In 2016, a dividend of EUR 249,839 thousand was paid out for shares outstanding for the fiscal year 2015 (in 2015 for 2014: EUR 249,839 thousand). This corresponds to EUR 3.62 per share for 2015 (2014: EUR 3.62 per share).

17| PROVISIONS

(in EUR thousand)

	2016	2015
Provisions for pensions	46,495	39,323
Other non-current provisions	32,059	32,759
Non-current provisions	**78,554**	**72,082**
Current provisions	**148,614**	**102,773**
TOTAL	**227,168**	**174,855**

Other provisions of EUR 180,673 thousand (2015: EUR 135,532 thousand) comprise current provisions of EUR 148,614 thousand (2015: EUR 102,773 thousand) and other non-current provisions of EUR 32,059 thousand (2015: EUR 32,759 thousand). The risk-free interest rates used to discount non-current provisions range between 0.1 % and 4.5 % (2015: between 0.1 % and 4.5 %) depending on the term and currency zone in question.

In fiscal year 2016, other provisions developed as follows:

(in EUR thousand)

	Balance on Jan. 1, 2016	Currency differences	Compounding	Addition	Use	Release	Balance on Dec. 31, 2016
Provisions for personnel expenses	54,390	614	142	44,704	(31,129)	(8,527)	60,194
Provisions for goods returned	30,183	(503)	0	29,414	(23,235)	(5,496)	30,363
Provisions for rebuild obligations	14,198	(407)	111	2,570	(816)	(291)	15,365
Costs of litigation, pending legal disputes	5,897	(43)	0	1,714	(2,262)	(934)	4,372
Provisions for store closings	0	1,899	0	41,906	(6,922)	0	36,883
Miscellaneous provisions	30,864	73	0	17,094	(7,884)	(6,650)	33,496
TOTAL	**135,532**	**1,633**	**253**	**137,402**	**(72,248)**	**(21,898)**	**180,673**

PROVISIONS FOR PERSONNEL EXPENSES

The provisions for personnel expenses mainly concern the provisions for short and medium-term profit sharing and bonuses, severance payment claims, phased retirement arrangements and overtime. It is expected that EUR 15,435 thousand (2015: EUR 16,706 thousand) will be paid out in more than 12 months.

The long-term incentive (LTI) program initiated at the beginning of the fiscal year 2016 serves as a long-term share-based compensation component for members of the Managing Board and eligible management staff of the HUGO BOSS Group. The first tranche of the program, the LTI Bonus Plan 2016/2018, was issued on January 1, 2016, and has a term of a total of four years, split into a performance term of three years and a qualifying period of one year.

At the beginning of the performance term, all participants in the plan receive an individual number of virtual shares, so-called “performance shares”, which are valued by dividing the individual LTI budget (in EUR) by the average HUGO BOSS share price over the last three months before the beginning of the performance term. The number of shares issued as of December 31, 2016, was 183,860. The final entitlement of the participants in the plan depends on the individual number of performance shares, the extent to which the preset targets have been achieved (components) – relative total shareholder return, return on capital employed, degree of employee satisfaction, DJSI (score in the Dow Jones Sustainability Index) over the performance term as well as the average HUGO BOSS share price over the last three months of the qualifying period. The final entitlement is paid out in cash no later than six weeks after the resolution has been passed by the Management of HUGO BOSS regarding the confirmation of the annual financial statement for the fiscal year 2019.

The long-term incentive program is to be classified as share-based, cash-settled compensation and is therefore accounted for pursuant to the standards of IFRS 2. For the liability, a provision is recognized pro rata over the term to satisfy the payment, which is recalculated on each reporting date. The evaluation is conducted using a Monte Carlo simulation, taking into account the degree to which the individual target components are expected to be achieved. The fair values per share option were between EUR 30.99 and EUR 45.56 as of December 31, 2016.

The fair value measurement is based on the following parameters:

	LTI 2016
HUGO BOSS share price at reporting date in EUR	58.13
Expected dividend return in %	4.00
Expected volatility in %	30.00
Risk-free interest rate in %	(0.76)

The provisions recognized in this regard were valued at EUR 1,455 thousand as of December 31, 2016. The LTI has an average remaining term of three years. In the fiscal year 2016, total expenses for share-based compensation pursuant to IFRS 2 of EUR 1,455 thousand were recorded in personnel expenses.

PROVISIONS FOR GOODS RETURNED

Provisions for goods returned, which are largely expected to be completed within 12 months, are determined based on historical rates of goods returned.

PROVISIONS FOR REBUILD OBLIGATIONS

Non-current provisions for rebuild obligations relate to Group-operated retail stores, warehouses and office space used by the Group companies. They are recognized on the basis of the expected settlement amounts and the rental period agreed upon. Estimates are made in terms of the cost as well as the actual timing of the utilization.

PROVISIONS FOR COSTS OF LITIGATION AND PENDING LEGAL DISPUTES

The provisions for costs of litigation and pending legal disputes include various, individually immaterial ongoing litigations as well as litigation costs for the protection of brand rights. These provisions are classified as current.

PROVISIONS FOR STORE CLOSURES

Provisions for store closures particularly relate to the expected compensation payments for lessors, primarily in Asia. The amount of the provisions for the planned store closures recognized at the end of the reporting period is based on judgments made by Management. The main judgments concern the type of closure (termination of lease in return for payment of compensation or the continued fulfillment of the lease by subletting the premises below the rental price) and the amount of the expected payments. The provisions recognized are based on the best possible estimate of the compensation payments and subletting proceeds. It is always possible for the actual compensation payable or the actual subletting proceeds received to differ from these assumptions. Any deviations between the original estimates and the actual outcome can impact the Group’s net assets, financial position and results of operations in the given period.

MISCELLANEOUS OTHER PROVISIONS

Miscellaneous other provisions are also recognized for the potential ramifications of legal and tax issues.

Based on reasonable estimates, provisions are recognized for the potential ramifications of legal issues. Such assessment also takes into account the estimation of local, external experts such as lawyers and tax advisors. Any deviations between the original estimates and the actual outcome can impact the Group's net assets, financial position and results of operations in the given period.

18| PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions are recognized for obligations from future and current post-employment benefits to eligible current and former employees of the HUGO BOSS Group. The benefits agreed under the pension plans depend for the most part on the length of service of the eligible employee. In general, company pension plans are classified into two types of plans: defined contribution plans and defined benefit plans. In the HUGO BOSS Group most of the plans are defined benefit plans. In the past year, the main defined benefit plans were granted in Germany, Switzerland and Turkey. The characteristics of these plans are described in the following.

DEFINED BENEFIT PLANS

GERMANY

Since the fiscal year 2014, there have only been direct pension obligations in Germany. A distinction is also made between general and individually agreed benefits. Under the general benefits granted, each employee who joined the Company prior to July 1, 2012, is entitled to benefits from Company pension plans. Employees who first receive benefits under the plan upon reaching the age of 50 or who have temporary employment agreements are excluded. Benefits comprise a post-employment benefit in the form of an old-age pension, an early-retirement benefit, a disability benefit or a surviving dependents' benefit in the form of a dependent child benefit.

Individually agreed benefits are only granted to active and former members of the Managing Board. Benefits can take the form of a post-employment benefit as an old-age pension or disability annuity and take the form of a surviving dependents' benefit as a surviving spouse or dependent child benefit. All active members of the Managing Board have received pension commitments which are regulated in individual contracts and the amounts of which are measured as a percentage of the contractually agreed pensionable income depending on their duration of membership of the Managing Board. The basis for determining the pensionable income is defined as the basic salary under the service agreement. For Mark Langer, the Chairman of the Managing Board, this is done in the form of a benefit-based commitment (defined benefit). The members of the Managing Board appointed in the fiscal year 2016 were granted pension commitments. An annual pension contribution into an employer's pension liability insurance scheme taken out on the life of the Managing Board member. The contribution corresponds to 40% of the pensionable income, which is determined based on the basic salary under the service agreement. This form of pension commitment also applies to any future appointments to the Managing Board.

In addition, the HUGO BOSS Group offers the Managing Board and management staff the option of acquiring additional pension benefits under deferred compensation agreements. This supplementary pension plan can take the form of retirement benefits or, alternatively, the form of occupational incapacity benefits and/or surviving dependents' benefits and/or the form of a lump-sum death grant. The pension benefits take the form of monthly payments, while surviving dependents' benefits can also be granted in the form of a lump-sum capital payment.

In Germany, the company pension plan for individually agreed benefits and deferred compensation agreements is funded by plan assets for which there is an employer's pension liability insurance, which is a qualifying insurance policy within the meaning of IAS 19.8 in conjunction with IAS 19.113 et seq. The assets concerned can be classified as non-marketable assets. Employer's pension liability insurance has not been taken out for general benefits granted.

SWITZERLAND

In Switzerland, employee pension plans must be allocated to a pension fund that is separate from the employer. The BVG ["Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge": Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans] imposes minimum benefits. HUGO BOSS uses a collective foundation to provide for its employees against the economic consequences of old age, disability and death. Under this model, the foundation assets are the plan assets. The board of trustees of the collective foundation is responsible for the investment policy; at present the majority of plan assets are invested in fixed interest securities such as sovereign bonds. The supreme governing body of the collective foundation comprises an equal number of employer and employee representatives. The plans are financed by employer and employee contributions, which are defined as a percentage of the insured wage. The old-age pension is calculated as the retirement assets accumulated upon reaching a pensionable age multiplied by the conversion rates specified in the fund regulations. Employees can opt to receive their pension benefits as a lump-sum payment from the retirement assets. The benefit payments under the Swiss plans encompass old-age pensions, disability benefits and surviving dependents' benefits. The collective foundation can change its financing system (contributions and future benefits) at any time. In addition, the collective foundation can terminate the affiliation agreement with HUGO BOSS; in such an event, the latter would have to join another welfare fund. Depending on the conditions of the affiliation agreement and the current partial liquidation rules, a deficit and the risks of increasing life expectancy (current pensions) can be transferred.

The pension obligations of the HUGO BOSS Group break down as follows:

(in EUR thousand)

	Present Value of the Defined Benefit Obligation		Fair Value of Plan Assets		Net Defined Benefit Liability	
	2016	2015	**2016**	2015	**2016**	2015
Germany	100,219	85,085	79,926	70,541	20,293	14,544
Switzerland	46,877	44,952	30,030	28,543	16,847	16,409
Others[1]	9,355	8,370	0	0	9,355	8,370
TOTAL	**156,451**	**138,407**	**109,956**	**99,084**	**46,495**	**39,323**

[1] Additional defined benefit plans are in place in Turkey, Italy, France, Mexico and Austria.

The amount of the pension obligations was determined using actuarial methods in accordance with IAS 19 "Employee Benefits".

In fiscal year 2016, the funding status of benefit obligations pursuant to IAS 19 was as follows:

(in EUR thousand)

	2016	2015
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	138,407	124,594
Currency differences	(517)	3,318
Service cost	7,701	7,169
Interest expense	3,083	2,808
Payments from settlements	(702)	0
Remeasurement of the carrying amount		
Actuarial gains/losses due to changes in financial assumptions	13,003	(2,377)
Actuarial gains/losses due to changes in demographic assumptions	(2,204)	2,317
Experience adjustments	(1,186)	(99)
Benefits paid	(4,366)	(2,777)
Contribution by participants of the plan	3,696	4,155
Past service cost	(279)	(774)
Other changes in benefit obligation	(185)	73
Present value of benefit obligation on December 31	**156,451**	**138,407**
Changes in plan assets		
Fair value of plan assets on January 1	99,084	78,966
Currency differences	274	2,397
Offsetting with plan assets	0	0
Expected return on plan assets	2,092	1,651
Expected return on plan assets (without interest income)	4,961	3,839
Benefits paid	(3,576)	(1,496)
Contribution by the employer	3,481	9,572
Contribution by participants of the plan	3,696	4,155
Asset ceiling pursuant to IAS 19.58	0	0
Other changes in benefit obligation	(55)	0
Fair value of plan assets on December 31	**109,957**	**99,084**
Funding status of the benefits funded by plan assets	**46,494**	**39,323**

As of December 31, 2016 EUR 97,827 thousand (2015: EUR 82,810 thousand) of the present value of the defined benefit obligations was funded through employer's pension liability insurance and EUR 46,877 thousand (2015: EUR 44,952 thousand) through foundation assets, while the remaining EUR 11,747 thousand (2015: EUR 10,645 thousand) was unfunded.

ACTUARIAL ASSUMPTIONS UNDERLYING THE CALCULATION OF THE PRESENT VALUE OF THE PENSION OBLIGATIONS AS OF DECEMBER 31, 2016

Discretion is exercised to the extent that the expense from benefit-based plans is determined based on actuarial calculations. This involves making assumptions about discount rates, future wage and salary increases, mortality rates and future pension increases. The discount rates used are based on the market yields of high-quality, fixed-interest corporate bonds.

The following premises were defined:

Actuarial assumptions	**2016**	2015
Discount rate		
Germany	1.80%	2.50%
Switzerland	0.70%	0.90%
Future pension increases		
Germany	1.75%	1.75%
Switzerland	0.00%	0.00%
Future salary increases		
Germany	2.50%	2.50%
Switzerland	3.00%	3.00%

Pension benefits in Germany are determined on the basis of biometric principles in accordance with the 2005 G mortality tables of Prof. Dr. Klaus Heubeck. The BVG 2010 mortality tables are used to measure the obligations of Swiss companies.

SENSITIVITY ANALYSIS OF KEY ACTUARIAL ASSUMPTIONS

The HUGO BOSS Group is exposed to special risks in connection with the aforementioned defined benefit plans. The funding status of pension obligations is influenced by both changes in the present value of the defined benefit obligations and changes in the fair value of plan assets. These are determined using actuarial methods that make assumptions concerning discount rates, future pension increases, future wage and salary increases and mortality rates. Future deviations between actual conditions and the underlying assumptions can lead to an increase or a decrease in the present value of the defined benefit obligations or the fair value of plan assets.

In addition, future amendments to the accounting standards governing the accounting treatment of pension obligations can affect the pertinent items of net assets, financial position and results of operations of the HUGO BOSS Group.

A change in the key actuarial parameters according to the scenarios presented below has the effects presented in the table below on the present value of the pension obligations as of December 31, 2016.

When conducting the sensitivity analysis, each parameter was altered ceteris paribus and not in combination with changes in other assumptions, thus excluding interdependencies between parameters. In addition, only ranges of values deemed to be reasonably plausible up to the date of preparing the HUGO BOSS Group's next set of consolidated financial statements were selected.

(in EUR thousand)

Actuarial assumptions	**2016**	2015
Discount rate		
December 31,		
Increase of 75 basis points	(18,469)	(15,643)
Decline of 75 basis points	22,537	19,401
Future pension increases		
December 31,		
Increase of 25 basis points	5,138	4,295
Decline of 25 basis points	(3,400)	(2,758)
Future salary increases		
December 31,		
Increase of 50 basis points	1,587	1,978
Decline of 50 basis points	(1,535)	(1,888)
Life expectancy		
December 31,		
Increase of 10 percent	4,773	3,741
Decline of 10 percent	(4,769)	(4,086)

BREAKDOWN OF THE PENSION EXPENSES IN THE PERIOD

The pension expenses of the period is composed of the following items:

(in EUR thousand)

	2016	2015
Current service costs	7,701	7,169
Past service costs	(279)	(774)
Net interest costs	990	1,158
Recognized pension expenses in the comprehensive statement of income	**8,412**	**7,553**
Expense from plan assets (without interest effects)	(4,961)	(3,839)
Recognized actuarial (gains)/losses	9,613	(159)
Asset ceiling (without interest effects of asset ceiling)	0	0
Recognized remeasurement of the carrying amount in the comprehensive statement of income	**4,652**	**(3,998)**

The net interest expense is calculated by multiplying the net pension obligation by the discount rate underlying the measurement of the defined benefit obligation (DBO).

In the case of deferred compensation commitments, current service cost is only incurred in the year of deferral. An increase in the service rendered does not increase the benefits granted.

For fiscal year 2017, the Group expects employer contributions to plan assets of EUR 3,500 thousand (2016: EUR 5,438 thousand).

DURATION

The duration of the benefit-based plans of the HUGO BOSS Group on December 31 stood at 18 years for Germany (18 years) and 16 years for Switzerland (15 years).

DEFINED CONTRIBUTION PLANS

Employer contributions to contribution-based plans totaled EUR 17,852 thousand in the past fiscal year (2015: EUR 16,883 thousand) and are reported under personnel expenses. The HUGO BOSS Group's main contribution-based plans are in Germany and the United States. They receive the contributions to statutory pension insurance and the employer's contribution to employer-funded direct insurance in Germany.

19| FINANCIAL LIABILITIES

All interest-bearing and non-interest-bearing obligations as of the respective reporting date are reported under financial liabilities. They break down as follows:

(in EUR thousand)

	2016	**With remaining term up to 1 year**	2015	With remaining term up to 1 year
Financial liabilities due to banks	196,674	73,191	163,604	38,691
Other financial liabilities	14,514	5,877	12,846	2,783
TOTAL	**211,188**	**79,068**	**176,450**	**41,474**

Other financial liabilities include negative market values from derivative financial instruments amounting to EUR 6,577 thousand (2015: EUR 3,807 thousand) and liabilities under finance leases of EUR 7,936 thousand (2015: EUR 9,039 thousand).

The following tables show the terms and conditions of financial liabilities:

	2016		2015	
Remaining term	**Weighted average interest rate**	**Carrying amount EUR thousand**	Weighted average interest rate	Carrying amount EUR thousand
Liabilities due to banks				
Up to 1 year	0.28 %	73,191	1.28 %	38,691
1 to 5 years	0.71 %	107,868	0.68 %	95,398
More than 5 years	4.00 %	15,615	2.95 %	29,515
Other financial liabilities				
Up to 1 year	1.41 %	5,877	2.88 %	2,783
1 to 5 years	4.12 %	8,182	4.06 %	8,090
More than 5 years	5.72 %	455	4.32 %	1,973

Following the refinancing of the syndicated credit facility in the fiscal year 2015, the non-current part of the financial liabilities was kept at the same amount and the less expensive current financial facilities were utilized. By contrast to the prior year, the share of non-interest-bearing financial liabilities has risen. As of the reporting date, they contain currency derivatives with negative market values.

The table below shows the contractually agreed undiscounted cash flows for non-derivative financial liabilities and for derivative financial instruments with a negative fair value.

(in EUR thousand)

2016	**Expected cash flows**				
Non-derivative financial liabilities	**Carrying amount**	**Total cash flows**	**< 1 year**	**1 – 5 years**	**> 5 years**
Financial liabilities due to banks	196,674	204,804	70,839	116,976	16,989
Liabilities from finance leases	7,936	8,286	1,476	6,810	0
Derivative financial liabilities					
Undesignated derivatives	4,519	4,519	2,399	1,666	454
Derivatives subject to hedge accounting	2,058	2,058	2,058	0	0
Other financial liabilities	0	0	0	0	0
TOTAL	**211,188**	**219,667**	**76,772**	**125,452**	**17,443**
2015					
Non-derivative financial liabilities					
Financial liabilities due to banks	163,604	173,586	39,752	112,235	21,599
Liabilities from finance leases	9,039	9,503	1,441	6,637	1,425
Derivative financial liabilities					
Undesignated derivatives	3,265	3,265	896	1,730	639
Derivatives subject to hedge accounting	542	542	542	0	0
Other financial liabilities	0	0	0	0	0
TOTAL	**176,450**	**186,896**	**42,631**	**120,602**	**23,663**

20| OTHER LIABILITIES

(in EUR thousand)

	2016			2015		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Other liabilities	164,452	115,099	49,353	167,722	125,480	42,242
From accruals of rental obligations for the Group's own retail business	80,071	32,848	47,223	70,845	32,391	38,454
From taxes	40,516	40,516	0	38,104	38,104	0
From social security, accrued vacation, wages and salaries	22,931	22,931	0	23,861	23,861	0

21| ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

CARRYING AMOUNTS AND FAIR VALUES BY CATEGORY OF FINANCIAL INSTRUMENTS

(in EUR thousand)

		2016		2015	
Assets	IAS 39 category	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	LaR	83,490	83,490	81,409	81,409
Trade receivables	LaR	228,176	228,176	239,614	239,614
Other financial assets		49,331	49,331	51,430	51,430
Thereof:					
Available-for-sale investments	AfS	0	0	461	461
Undesignated derivatives	FAHfT	2,047	2,047	5,942	5,942
Derivatives subject to hedge accounting	n. a.	0	0	736	736
Other financial assets	LaR	47,284	47,284	44,291	44,291
Liabilities					
Financial liabilities due to banks	FLAC	196,674	199,403	163,604	165,513
Trade payables	FLAC	271,731	271,731	271,506	271,506
Other financial liabilities		14,514	14,514	12,846	12,846
Thereof:					
Undesignated derivatives	FLHfT	4,519	4,519	3,265	3,265
Derivatives subject to hedge accounting	n. a.	2,058	2,058	542	542
Liabilities from finance leases	n. a.	7,937	7,937	9,039	9,039
Other financial liabilities	FLAC	0	0	0	0

The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, trade receivables, other financial assets, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of loans from banks and other financial liabilities, obligations under finance leases and other non-current financial liabilities is calculated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

As of December 31, 2016, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The credit risk of the counterparty did not lead to any significant effects.

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices on active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value and are not based on observable market data.

As of December 31, 2016, as in the prior year, all financial instruments measured at fair value in the categories FAHfT, FLHfT and derivatives designated to a hedge relationship were assigned to level 2. During fiscal year 2016, there were no transfers between level 1 and level 2 or from level 3. The financial instruments measured at fair value comprised forward exchange contracts, currency swaps and interest derivatives. These were assigned to the categories FAHfT, FLHfT and derivatives used for hedging. The assets amounted to EUR 2,047 thousand and liabilities to EUR 6,578 thousand. The fair value of financial instruments carried at amortized cost in the statement of financial position was likewise determined using a level 2 method.

INTEREST AND CURRENCY RISK HEDGES

To hedge against interest and currency risks, the HUGO BOSS Group enters into hedging transactions in some areas to mitigate risk. As of the reporting date, EUR 9,627 thousand (2015: EUR 10,299 thousand) in variable interest finance liabilities were hedged through interest rate swaps. Moreover, as of the reporting date, future cash flows in foreign currencies of EUR 24,978 thousand (2015: EUR 24,349 thousand) were hedged and fully designated as an effective hedging instrument. The change in unrealized gains/losses from marking hedges to market in other comprehensive income amounted to EUR -2,252 thousand (2015: EUR 1,229 thousand).

NET RESULT BY MEASUREMENT CATEGORY

(in EUR thousand)

	Interest income and expenses	Changes in fair value	Currency translation	Bad debt losses	Disposal of financial instruments	2016	2015
Derivatives (FAHfT and FLHfT)	0	183	0	0	(12,881)	(12,698)	(9,909)
Loans and Receivables (LaR)	1,567	0	5,620	(4,524)	0	2,663	(12,991)
Financial liabilities measured at amortized cost (FLAC)	(2,384)	0	2,369	0	0	(15)	(1,223)

Interest on financial instruments is reported in the interest result (cf. notes to the consolidated income statement, Note 5).

The bad debt allowances recognized on trade receivables allocable to the loans and receivables measurement category are reported under selling and distribution expenses.

Exchange gains and losses from the translation of foreign currency receivables and liabilities as well as fair value changes and effects of disposals of exchange rate hedges are reported in the other financial result.

OFFSETTING OF FINANCIAL INSTRUMENTS

(in EUR thousand)

	Gross amounts recognized assets	Gross amounts offset liabilities	Net asset amounts disclosed in statement of fin. pos.	Liabilities not offset in the statement of fin. pos.	Cash deposits received not offset in the statement of fin. pos.	Net amounts
2016						
Trade receivables	245,579	(17,403)	228,176	0	0	228,176
Other financial assets	49,331	0	49,331	(1,187)	0	48,144
Thereof derivatives	2,047	0	2,047	(1,187)	0	860
TOTAL	**294,910**	**(17,403)**	**277,507**	**(1,187)**	**0**	**276,320**
2015						
Trade receivables	252,954	(13,340)	239,614	0	0	239,614
Other financial assets	51,430	0	51,430	(867)	0	50,563
Thereof derivatives	6,678	0	6,678	(867)	0	5,811
TOTAL	**304,384**	**(13,340)**	**291,044**	**(867)**	**0**	**290,177**

(in EUR thousand)

	Gross amounts recognized liabilities	Gross amounts offset assets	Net liabilities amounts disclosed in statement of fin. pos.	Assets not offset in the statement of fin. pos.	Cash deposits received not offset in the statement of fin. pos.	Net amounts
2016						
Trade payables	277,882	(6,151)	271,731	0	0	271,731
Other financial liabilities	14,514	0	14,514	(1,187)	0	13,327
Thereof derivatives	6,577	0	6,577	(1,187)	0	5,390
TOTAL	**292,396**	**(6,151)**	**286,245**	**(1,187)**	**0**	**285,058**
2015						
Trade payables	277,882	(6,376)	271,506	0	0	271,506
Other financial liabilities	12,846	0	12,846	(867)	0	11,979
Thereof derivatives	3,807	0	3,807	(867)	0	2,940
TOTAL	**290,728**	**(6,376)**	**284,352**	**(867)**	**0**	**283,485**

The liabilities of EUR 17,403 thousand (2015: EUR 13,340 thousand) offset against trade receivables as of the reporting date are outstanding credit notes to customers. The assets offset against trade payables are receivables in the form of supplier credit notes of the HUGO BOSS Group. These amounted to EUR 6,151 thousand (2015: EUR 6,376 thousand).

Standard master agreements for financial future contracts are in place between the HUGO BOSS Group and its counterparties governing the offsetting of derivatives. These prescribe that derivative assets and derivative liabilities with the same counterparty can be combined into a single offsetting receivable.

HEDGING POLICY AND FINANCIAL DERIVATIVES

The following presentation shows the nominal amounts and the fair value of derivative financial instruments:

(in EUR thousand)

	2016		2015	
	Nominal-values	**Fair values**	Nominal-values	Fair values
Assets				
Currency hedging contracs	135,549	2,047	241,709	6,677
Interest hedging contracts	0	0	0	0
Liabilities				
Currency hedging contracs	(159,002)	(3,917)	(67,754)	(867)
Interest hedging contracts	(9,627)	(2,661)	(10,299)	(2,940)
TOTAL	**(33,080)**	**(4,531)**	**163,656**	**2,870**

The nominal values are amount hedged by the corresponding hedge.The fair values of derivative financial instruments are recognized as other financial assets or as other financial liabilities. They do not necessarily correspond to the amounts that will be generated in the future under normal market conditions.

Of the reported fair value from derivative financial instruments, an amount of EUR -2,472 thousand (2015: EUR 2,677 thousand) stems from financial assetss and liabilities that were classified as held for trading.

No effects from the fair value measurement of interest hedges were recognized in other comprehensive income as of December 31, 2016 (2015: EUR 0 thousand) or were recycled through the income statement (2015: expenses of EUR -1,161 thousand). The recycled expenses from the fiscal year 2015 break down into interest expense of EUR -449 thousand, income from deferred taxes of EUR 112 thousand, and expenses of EUR 824 thousand from the premature dissolution of the interest hedges, after the deduction of deferred taxes.

The negative effects from the fair value measurement of currency hedges of EUR -2,058 thousand were recognized in other comprehensive income as of December 31, 2016 (2015: EUR 194 thousand). Of the amount recognized in other comprehensive income, income of EUR 194 thousand was recycled through the income statement in fiscal year 2016 (2015: EUR 513 thousand). The fair value changes came to EUR -2,058 thousand (2015: EUR 194 thousand).

OTHER NOTES

22| CONTINGENT LIABILITIES

Contingent liabilities arising from the provision of collateral for third-party liabilities are valued at EUR 8,547 thousand as of December 31, 2016 (2015: EUR 8,547 thousand) and relate to the consolidated structured entities BIL Leasing Verwaltungs-GmbH & Co. 869 KG, ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstrasse KG and ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG.

Under terms of the sale of the production site in Cleveland, Ohio, in the second quarter of 2015 and the transfer of production staff to the purchaser, HUGO BOSS Cleveland Inc. accepted subsidiary liability in connection with the termination of its participation in the existing multi-employer pension fund. If the purchaser terminates its participation in the pension plan before the expiry of five years and is unable to pay a settlement amount in favor of the pension fund, HUGO BOSS Cleveland Inc. in its capacity as the seller is liable under the Employee Retirement Income Security Act for an amount equaling the present value of the obligations calculated using actuarial methods, which is capped at about USD 6.4 million. Management considers the case of liability occurring as not likely. Hence no provisions have been set aside as of the reporting date.

23| OTHER FINANCIAL OBLIGATIONS

OPERATING LEASES

Rental expenses under operating leases of EUR 405,475 thousand were recognized in fiscal year 2016 (2015: EUR 364,914 thousand). Thereof contingent sales-based rental expenses amounted to EUR 135,353 thousand (2015: EUR 104,292 thousand).

The following minimum lease payments under operating leases fall due in subsequent periods:

(in EUR thousand)

2016	**Due 2017**	**Due 2018 – 2021**	**Due after 2021**	**TOTAL**
Sum of future minimum lease payments (operating lease)	275,845	778,694	372,705	**1,427,244**
Other obligations	2,341	3,386	84	**5,811**
TOTAL	**278,186**	**782,080**	**372,789**	**1,433,055**

2015	Due 2016	Due 2017 – 2020	Due after 2020	**TOTAL**
Sum of future minimum lease payments (operating lease)	254,638	776,587	377,872	**1,409,097**
Other obligations	2,170	4,128	124	**6,422**
TOTAL	**256,808**	**780,715**	**377,996**	**1,415,519**

The other obligations line item contains other service and maintenance agreements.

The main real estate lease agreements (operating leases) for the use of buildings and associated land include purchase options and, in some cases, renewal options for the respective property.

In fiscal year 2016, the Group earned income of EUR 163 thousand from subleases (2015: EUR 137 thousand). Total future minimum lease payments from subleases as of the reporting date December 31, 2016, which are expected to be received as they pertain to non-cancelable leases, amount to EUR 161 thousand (2015: EUR 315 thousand).

FINANCE LEASES

The assets had a net carrying amount of EUR 8,632 thousand as of December 31, 2016 (2015: EUR 9,083 thousand), which is reported within property, plant and equipment. This figure includes IT servers in the amount of EUR 1,140 thousand (2015: EUR 1,465 thousand) and a warehouse and the land on which it is located in the amount of EUR 7,493 thousand (2015: EUR 7,618 thousand). Interest expenses and depreciation for fiscal year 2016 came to EUR 737 thousand (2015: EUR 193 thousand).

(in EUR thousand)

2016	**Due 2017**	**Due 2018 – 2021**	**Due after 2021**	**TOTAL**
Minimum lease payments	1,452	6,586	0	**8,037**
Estimated amount representing interest	32	69	0	**101**
Present value of minimum lease payments	**1,420**	**6,516**	**0**	**7,936**

2015	Due 2016	Due 2017 – 2020	Due after 2020	**TOTAL**
Minimum lease payments	1,382	6,455	1,336	**9,173**
Estimated amount representing interest	36	96	2	**134**
Present value of minimum lease payments	**1,346**	**6,359**	**1,334**	**9,039**

The Group has entered into leases for retail stores, office space, warehouses, land and IT servers. The leases for the retail stores operated by the Group, office space and warehouses are classified as operating leases on the basis of the customary limits for determining the proportion of the useful life of the assets in question and the present value of the minimum lease payments. In this connection, it has been determined that the opportunities and risks arising from ownership of this floor space and real estate leased under operating leases remain with the corresponding property companies and lessors. On the other hand, the leases for a warehouse and the land on which it is located in Midway, Georgia, U.S., and for IT servers in Metzingen provide for the material opportunities and risks arising from ownership to be transferred to the lessee. Accordingly, they are classified as finance leases.

24| NOTES TO THE STATEMENT OF CASH FLOWS

The statement of cash flows of the HUGO BOSS Group shows the change in cash and cash equivalents over the reporting period using cash transactions. In accordance with IAS 7, the sources and applications of cash flows are categorized according to whether they relate to operating, investing or financing activities. The cash inflows and outflows from operating activities are calculated indirectly on the basis of the Group’s net profit for the period. By contrast, cash flows from investing and financing activities are directly derived from the cash inflows and outflows. The changes in the items of the statement of financial position presented in the statement of cash flows cannot be derived directly from the statement of financial position on account of exchange rate translations.

A more detailed description of cash flows reported in the consolidated statement of cash flows is available in the chapter "Cash and cash equivalents".

Non-cash expenses and income concern in particular unrealized exchange rate gains and losses, fair value changes of derivative financial instruments recognized in profit or loss and non-cash changes in financial liabilities.

25| SEGMENT REPORTING

The Managing Board of HUGO BOSS AG manages the company by geographic areas. The HUGO BOSS national companies are responsible for the sale of all HUGO BOSS products that are not sold as licensed products by third parties in their respective sales territories. The managing directors of the national companies report to the regional directors in charge in each case, who in turn report to the Managing Board of HUGO BOSS AG. This organizational structure enables the direct implementation of Group objectives while taking into account specific market conditions.

Accordingly, the operating segments are organized into the three regions Europe including Middle East and Africa, Americas and Asia/Pacific, in addition to the license division. The regions are allocated to the corresponding distribution companies of the HUGO BOSS Group, while the complete licenses business of HUGO BOSS with third parties is allocated to the license division.

The Managing Board of HUGO BOSS AG is the chief operating decision maker of the HUGO BOSS Group.

Management of the regional business units is aligned to the value added contribution at Group level.

The most important performance indicator used by the Managing Board to make decisions about resources to be allocated to segments is EBITDA before special items. The segment result is thus defined as EBITDA before special items of the sales units plus the gross profit margin of the sourcing units and intercompany license sales.

Group financing (including interest income and expenses) and income taxes are managed on a Group-wide basis and are not allocated to operating segments.

Management of the operating figures inventories and trade receivables is assigned to the sales territories. These items are regularly reported to the Managing Board. Consequently, segment assets only contain trade receivables and inventories.

Liabilities are not part of internal management reporting. The segment liabilities are therefore not disclosed.

The accounting rules applied in the segment information are in line with the accounting rules of the HUGO BOSS Group as described in the accounting policies.

The Managing Board regularly reviews certain effects recognized in the statement of comprehensive income, including in particular amortization, depreciation and impairment losses.

Capital expenditure is also regularly reported to the Managing Board as part of internal reporting, making it a component of segment reporting.

All expenses and assets that cannot be directly allocated to the sales territories or the license segment are reported in the reconciliations below under corporate units/consolidation. All Group-wide central functions are pooled in the corporate units. The remaining expenses of the procurement, production and R&D units make up an operating cost center. No operating income is allocated to the corporate units.

(in EUR thousand)

	Europe[1]	Americas	Asia/Pacific	Licenses	TOTAL operating segments
2016					
Sales	**1,660,006**	**581,862**	**381,492**	**69,486**	**2,692,846**
Segment profit	**518,628**	**133,192**	**79,528**	**59,162**	**790,510**
In % of sales	31.2	22.9	20.8	85.1	29.4
Segment assets	245,669	202,729	86,980	23,700	559,078
Capital expenditure	58,352	31,206	19,157	0	108,715
Impairments	(10,005)	(14,649)	(5,720)	0	(30,374)
Thereof property, plant and equipment	(7,769)	(14,461)	(5,310)	0	(27,540)
Thereof intangible assets	(2,236)	(188)	(410)	0	(2,834)
Depreciation/amortization	(50,257)	(26,879)	(25,401)	0	(102,537)
2015					
Sales	**1,683,249**	**670,480**	**392,929**	**62,088**	**2,808,746**
Segment profit	**535,382**	**187,443**	**99,963**	**51,634**	**874,422**
In % of sales	31.8	28.0	25.4	83.2	31.1
Segment assets	258,285	239,598	115,246	18,404	631,533
Capital expenditure	65,989	46,089	41,879	0	153,957
Impairments	(6,053)	(6,255)	(5,418)	0	(17,726)
Thereof property, plant and equipment	(4,931)	(6,224)	(5,418)	0	(16,573)
Thereof intangible assets	(1,122)	(31)	0	0	(1,153)
Depreciation/amortization	(32,685)	(25,079)	(24,454)	0	(82,218)

[1] Including Middle East/Africa.

RECONCILIATION

SALES

(in EUR thousand)

	2016	2015
Sales – operating segments	**2,692,846**	**2,808,746**
Corporate units	0	0
Consolidation	0	0
TOTAL	**2,692,846**	**2,808,746**

OPERATING INCOME

(in EUR thousand)

	2016	2015
Segment profit – operating segments	**790,510**	**874,422**
Depreciation/amortization – operating segments	(102,537)	(82,218)
Impairments – operating segments	(30,374)	(17,726)
Other operating expense/income – operating segments	(53,029)	(2,323)
Operating income (EBIT) – operating segments	**604,570**	**772,155**
Corporate units	(337,340)	(329,120)
Consolidation	(3,727)	4,677
Operating income (EBIT) HUGO BOSS Group	**263,503**	**447,712**
Net interest income/expenses	**(2,162)**	**(5,901)**
Other financial items	**(5,705)**	**(21,837)**
Earnings before taxes HUGO BOSS Group	**255,636**	**419,974**

SEGMENT ASSETS

(in EUR thousand)

	2016	2015
Segment assets – operating segments	**559,078**	**631,533**
Corporate units	237,069	167,590
Consolidation	0	0
Current tax receivables	42,617	21,124
Current financial assets	28,339	29,017
Other current assets	96,302	104,582
Cash and cash equivalents	83,490	81,409
Non-current assets held for sale	0	487
Current assets HUGO BOSS Group	**1,046,895**	**1,035,742**
Non-current assets	751,727	764,603
Total assets HUGO BOSS Group	**1,798,622**	**1,800,345**

CAPITAL EXPENDITURES

(in EUR thousand)

	2016	2015
Capital expenditure – operating segments	**108,715**	**153,957**
Corporate units	48,041	66,384
Consolidation	0	0
TOTAL	**156,756**	**220,341**

IMPAIRMENTS

(in EUR thousand)

	2016	2015
Impairment – operating segments	**30,374**	**17,726**
Corporate units	(15)	0
Consolidation	0	0
TOTAL	**30,359**	**17,726**

DEPRECIATION/AMORTIZATION

(in EUR thousand)

	2016	2015
Depreciation/amortization – operating segments	**102,537**	**82,218**
Corporate units	36,283	42,155
Consolidation	0	0
TOTAL	**138,820**	**124,373**

GEOGRAPHIC INFORMATION

(in EUR thousand)

	Third party sales		Non-current assets	
	2016	2015	2016	2015
Germany	448,375	464,753	211,825	203,769
Other European markets	1,211,631	1,218,510	210,414	218,314
U.S.A.	439,925	529,799	64,763	68,891
Other North, Central and South American markets	141,934	140,667	15,701	18,441
China	211,466	232,271	31,984	42,004
Other Asian markets	170,029	160,658	56,362	61,052
Licenses	69,486	62,088	15,001	15,014
TOTAL	**2,692,846**	**2,808,746**	**606,050**	**627,485**

26| RELATED PARTY DISCLOSURES

In the reporting period from January 1 to December 31, 2016, the following transactions requiring disclosure were conducted with related parties:

PARENT COMPANY

Following the sale of all their shareholdings on March 17, 2015, Permira Holdings Limited, Guernsey, and the parties related to it, no longer constituted related parties as defined in IAS 24 as of December 31, 2015. In the prior year, no legal transactions were conducted with Permira Holdings Limited, Guernsey, as the former ultimate parent company of the HUGO BOSS Group, or with companies affiliated with this company.

NON-CONSOLIDATED SUBSIDIARIES

In the fiscal year 2016, no transactions were conducted with non-consolidated subsidiaries. In the fiscal year 2015, sales of EUR 575 thousand arose from business relations with non-consolidated subsidiaries and were matched by outstanding receivables of the same amount as of December 31, 2015.

ENTITIES UNDER JOINT CONTROL

Within the scope of existing real estate lease agreements, rents in the amount of EUR 11,693 thousand were paid to companies under joint control in fiscal year 2016 (2015: EUR 11,576 thousand). There were no open liabilities relating to these business transactions as at December 31, 2016. The lease agreements also include purchase options for the respective property at expected marked value. In addition, the agreement with Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG contains a renewal option to market conditions. The remaining term of the non-cancellable lease agreements is 11 years at GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG and 9 years at Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG.

A construction support services agreement is also in place between Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG and HUGO BOSS AG. Prior to the commencement of operations at the flat-packed goods distribution center, this encompassed the preparation, execution and supervision of construction projects, including preparation of building applications, validation of invoicing and the conclusion of agreements on behalf and for the account of Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. The construction services contract was extended after the distribution center went into operation to ensure that structural and technical modifications could be made in the period from 2015 until 2024. In 2016, HUGO BOSS AG received a lump-sum amount of EUR 10 thousand in consideration of the construction support services provided (2015: EUR 10 thousand).

RELATED PARTIES

Related parties comprise members of the Managing Board and Supervisory Board. Members of the Supervisory Board and Managing Board are reported on pages 206 to 207.

Compensation for the Managing Board

The expense for short-term employee benefits totaled EUR 2,387 thousand in 2016 (2015: EUR 4,498 thousand). In 2016, a service cost of EUR 1,360 thousand was incurred for company pension plans (2015: EUR 2,033 thousand). An income of EUR 59 thousand was incurred for other long-term employee benefits reportable in 2016 (2015: expense of EUR 564 thousand). For share-based compensation, the expense in 2016 was EUR 193 thousand (2015: EUR 0 thousand). Expenses for the termination of employment contracts amounting to EUR 10,610 thousand were recognized under "Other operating expenses and income".

Total compensation of the members of the Managing Board within the meaning of Sec. 314 (1) No. 6 a) Clauses 1 to 4 HGB came to EUR 3,613 thousand in the fiscal year 2016 (2015: EUR 4,918 thousand). Of this amount, EUR 2,261 thousand was attributable to basic compensation including fringe benefits (2015: EUR 3,690 thousand). An amount of EUR 113 thousand (2015: EUR 644 thousand) is accounted for by the Short Term Incentive (STI) agreed for the fiscal year 2016, an amount of EUR 13 thousand being attributable to a one-time special compensation. The multiple-year bonus for the period from 2014 until 2016 accounts for a total of EUR 167 thousand (2015: EUR 584 thousand). The LTI for 2016–2018 relates to an amount of EUR 1,061 thousand (2015: EUR 0 thousand), which results in 20,998 subscription rights in 2016. The STI for 2016 and the multiple-year bonus for 2014 to 2016 will be paid in the fiscal year 2017 within a week of the Supervisory Board approving the consolidated financial statements for 2016 for payment.

In fiscal year 2016, the Managing Board was entitled to advance installments of the multiple-year bonus for fiscal years 2015–2017 totaling EUR 540 thousand (2015: EUR 540 thousand advance installments of the multiple-year bonus 2014–2016), which will ultimately be measured by the target realization for the multiple-year period 2015–2017. This advance installment was offset with the amount of the advance bonus payment of the multiple-year bonus 2013–2015 of EUR 429 thousand in excess of the actual achievement. As of the reporting date, the advance installments granted towards the multiple-year bonuses for 2014–2016 and 2015–2017 total EUR 1,080 thousand (2015: EUR 5,688 thousand). Moreover, no loans were granted to nor contingent liabilities assumed in favor of members of the Managing Board in fiscal year 2016.

In 2016, former members of the Managing Board and their surviving dependents received total compensation of EUR 12,051 thousand (2015: EUR 245 thousand). This includes termination benefits of EUR 11,741 thousand. The advance bonus payments of EUR 3,360 thousand accruing in earlier years were deducted from the termination benefits.

There are pension obligations of EUR 47,355 thousand for former members of the Managing Board and their surviving dependents (2015: EUR 26,525 thousand). The corresponding plan assets in the form of employer's liability insurance amount to EUR 34,459 thousand (2015: EUR 17,982 thousand).

Compensation of the Supervisory Board

The Supervisory Board received compensation for its activities in 2015 amounting to EUR 2,015 thousand. For fiscal year 2016, total compensation is expected to come to EUR 1,540 thousand. This figure includes a variable component of EUR 785 thousand (2015: EUR 1,332 thousand), which is calculated on the basis of the expected earnings per share in the consolidated financial statements.

Other related party disclosures
In total, the members of the Managing Board and Supervisory Board hold less than 1% (2015: less than 1%) of the shares issued by HUGO BOSS AG.

Members of the Managing Board and Supervisory Board purchase HUGO BOSS products as part of the compensation in kind granted to them supplementary to their salary and for their personal use. Besides this, no significant transactions were concluded between companies of the HUGO BOSS Group and key management personnel and their close family members.

27| SUBSEQUENT EVENTS

Between the end of fiscal year 2016 and the release for publication of this report on March 7, 2017 there were no notable macroeconomic, socio-political, industry-related or company-specific changes which could have a material impact on the Company's results of operations, net assets and financial position according to the expectations of management.

28| GERMAN CORPORATE GOVERNANCE CODE

In December 2016, the Managing Board and Supervisory Board of HUGO BOSS AG issued the declaration of compliance prescribed by Sec. 161 AktG. It is available for shareholders on the Company's website.

29| GROUP AUDITOR FEES

(in EUR thousand)

	2016	2015
Audit services	1,873	1,830
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	485	481
Other assurance services	177	143
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	114	50
Tax advisory services	480	674
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	92	433
Other services	5	69
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	1	59
TOTAL	**2,535**	**2,716**

MANAGING BOARD

MARK LANGER
(from January 15, 2010
Member of the Managing Board,
from May 19, 2016
Chairman of the Managing Board)
Stuttgart, Germany

Chairman of the Managing Board

Responsible for

Corporate Strategy and Communication,
Controlling, Finance, Internal Audit,
Central Services, IT,
Legal/Compliance, Human Ressources,
Global Sourcing and Production,
Supply Chain Management

CLAUS-DIETRICH LAHRS
(till February 29, 2016)
Stuttgart, Germany

Chairman of the Managing Board

Responsible for

Sales,
Own Retail,
Communications,
Licenses

BERND HAKE
(from March 1, 2016)
Eningen, Germany

Responsible for

Own Retail,
Wholesale,
Global Merchandising

INGO WILTS
(from August 15, 2016)
Amsterdam, Netherlands

Responsible for

Creative Management,
Brand Management,
License Management,
PR Fashion,
Global Advertising

CHRISTOPH AUHAGEN
(till April 22, 2016)
Stuttgart, Germany

Responsible for

Creative Management,
Brand Management,
Sourcing and Production

SUPERVISORY BOARD

MICHEL PERRAUDIN Hergiswil, Switzerland	Management Consultant Chairman of the Supervisory Board
ANTONIO SIMINA Metzingen, Germany	Tailor/Chairman of the Works Council HUGO BOSS AG, Metzingen, Germany Deputy Chairman of the Supervisory Board Employee representative
TANJA SILVANA GRZESCH Sonnenbuehl, Germany	Chairperson and Treasurer of the German Metalworkers´ Union (IG Metall) Reutlingen-Tuebingen, Reutlingen, Germany Employee representative
ANITA KESSEL Metzingen, Germany	Administrative Employee HUGO BOSS AG, Metzingen, Germany Employee representative
KIRSTEN KISTERMANN-CHRISTOPHE Oberursel, Germany	Managing Director Société Générale S.A., Frankfurt/Main, Germany
FRIDOLIN KLUMPP Caslano, Switzerland	Senior Vice President Global Human Resources HUGO BOSS AG, Metzingen, Germany Employee representative
GAETANO MARZOTTO Milan, Italy	Chairman of the Supervisory Board Gruppo Santa Margherita S.p.A., Fossalta di Portogruaro, Italy
LUCA MARZOTTO Venice, Italy	Chief Executive Officer Zignago Holding S.p.A., Fossalta di Portogruaro, Italy
SINAN PISKIN Metzingen, Germany	Administrative Employee HUGO BOSS AG, Metzingen, Germany Employee representative
AXEL SALZMANN Großhansdorf, Germany	Chief Financial Officer Bilfinger SE, (till September 30, 2016), Mannheim, Germany Kite Holding Germany GmbH, (from October 1, 2016) Duesseldorf, Germany
MARTIN SAMBETH (from August 1, 2016) Tiefenbronn, Germany	Secretary of the German Metalworkers’ Union IG Metall Area Headquaters Baden-Wuerttemberg, Stuttgart, Germany Employee representative
MONIKA LERSMACHER (till July 31, 2016) Kornwestheim, Germany	Secretary of the German Metalworkers’ Union IG Metall Area Headquaters Baden-Wuerttemberg, Stuttgart, Germany Employee representative
HERMANN WALDEMER Blitzingen, Switzerland	Consultant

ADDITIONAL DISCLOSURES ON THE MEMBERS OF THE SUPERVISORY BOARD AND THE MANAGING BOARD

The members of HUGO BOSS' Supervisory Board are also members of an executive body at the following companies:[1]

Michel Perraudin	ODLO Sports Holding AG[2]	Huenenberg, Switzerland
Kirsten Kistermann-Christophe	GSW Immobilien AG	Berlin, Germany
Monika Lersmacher (till July 31, 2016)	Berthold Leibinger GmbH	Ditzingen, Germany
Hermann Waldemer	FCA US LLC (till June 30, 2016)	Auburn Hills, MI, United States
Gaetano Marzotto	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Santa Margherita S.p.A.[2]	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Alpitour S.p.A.	Turin, Italy
	Clouditaly Telecommunicazioni S.p.A.	Rome, Italy
	GGDB Holding S.p.A.	Milan, Italy
	Tipo S.p.	Milan, Italy
Luca Marzotto	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Santa Margherita S.p.A.[2]	Fossalta di Portogruaro, Italy
	Centervue S.p.A.	Padua, Italy
	Cà del Bosco Srl - Società Agricola	Erbusco, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Golden Goose S.p.A.	Milan, Italy
	GGDB Holding S.p.A.	Milan, Italy
	Telecom Italia S.p.A.	Milan, Italy
	Lumar Srl	Vicenza, Italy
Martin Sambeth (from August 1, 2016)	Schuler Pressen GmbH (till August 31, 2016)	Goeppingen, Germany
	Schuler AG (till September 30, 2016)	Goeppingen, Germany

[1] The members not named have no seats on executive or advisory bodies at other companies.
[2] Member holds position of Chairman.

The Managing Board is also member of an executive body at the following company:[1]

Claus-Dietrich Lahrs (till February 29, 2016)	Ravensburger AG	Ravensburg, Germany

[1] The members not named have no seats on executive or advisory bodies at other companies.

PUBLICATION

The annual and consolidated financial statements of HUGO BOSS AG are published in the German Federal Gazette and on the website of HUGO BOSS.

Metzingen, March 7, 2017

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Ingo Wilts

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report, which is combined with the management report of HUGO BOSS AG, includes a fair review of the development and performance of the business and the position of the HUGO BOSS Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Metzingen, March 7, 2017

HUGO BOSS AG
The Managing Board

Mark Langer
Bernd Hake
Ingo Wilts

AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the group management report, which has been combined with the management report of the Company:

"We have audited the consolidated financial statements prepared by HUGO BOSS AG, Metzingen, comprising the income statement, the statement of comprehensive income, the statement of financial position, the consolidated statement of changes in equity, the statement of cash flows as well as the notes to the consolidated financial statements together with the group management report, which has been combined with the management report of the Company, for the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 31 5a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU as well as the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Stuttgart, March 7, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Matischiok	**Biller**
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]