CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

of the HUGO BOSS group for the period from January 1 to December 31, 2019

Consolidated income statement (in EUR thousand)

	Notes	2019	2018[1]
Sales	(1)	**2,884,056**	**2,795,963**
Cost of sales	(1)	(1,008,619)	(972,698)
Gross profit		**1,875,437**	**1,823,265**
In % of sales		65.0	65.2
Selling and distribution expenses	(2)	(1,234,587)	(1,175,692)
Administration expenses	(3)	(296,354)	(300,764)
Operating result (EBIT)		**344,496**	**346,809**
Net interest income/expenses		(31,465)	(3,213)
Other interest and similar income		1,609	2,019
Interest and similar expenses		(33,074)	(5,232)
Other financial items		**(7,438)**	**(6,926)**
Financial result	(4)	**(38,903)**	**(10,139)**
Earnings before taxes		**305,593**	**336,670**
Income taxes	(5)	(100,350)	(100,470)
Net income		**205,243**	**236,200**
Attributable to:			
Equity holders of the parent company		205,113	236,152
Non-controlling interests		130	48
Earnings per share (EUR)[2]	(6)	**2.97**	**3.42**
Dividend per share (EUR)[3]	(16)	**2.75**	**2.70**

[1] Adjusted figures of the previous year: Information on change in presentation can be found in the notes on accounting policies.
[2] Basic and diluted earnings per share.
[3] 2019: Proposed dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of the HUGO BOSS group for the period from January 1 to December 31, 2019

Consolidated statement of comprehensive income (in EUR thousand)

	2019	2018
Net income	**205,243**	**236,200**
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	(12,706)	4,256
Items to be reclassified subsequently to profit or loss		
Currency differences	12,016	8,010
Gains/losses from cash flow hedges	1,934	407
Other comprehensive income, net of tax	**1,244**	**12,673**
Total comprehensive income	**206,487**	**248,873**
Attributable to:		
Equity holders of the parent company	206,357	248,825
Non-controlling interests	130	48
Total comprehensive income	**206,487**	**248,873**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of the HUGO BOSS group as of December 31, 2019

Consolidated statement of financial position (in EUR thousand)

Assets	Notes	2019	2018
Property, plant and equipment	(8)	516,767	389,441
Intangible assets	(8)	197,449	184,896
Right-of-use assets	(9)	877,425	0
Deferred tax assets	(5)	97,924	90,116
Non-current financial assets	(11), (22)	21,518	19,020
Other non-current assets	(11)	2,120	2,880
Non-current assets		**1,713,203**	**686,353**
Inventories	(12)	626,514	617,947
Trade receivables	(13)	216,222	214,137
Current tax receivables	(5)	33,359	38,682
Current financial assets	(11), (22)	32,341	31,998
Other current assets	(11)	123,200	122,723
Cash and cash equivalents	(14)	132,626	146,717
Current assets		**1,164,262**	**1,172,204**
Total		**2,877,465**	**1,858,557**

Equity and liabilities			
Subscribed capital	(15)	70,400	70,400
Own shares	(15)	(42,363)	(42,363)
Capital reserve		399	399
Retained earnings		932,817	926,137
Accumulated other comprehensive income		40,374	26,424
Equity attributable to equity holders of the parent company		**1,001,627**	**980,997**
Non-controlling interests		41	(302)
Group equity		**1,001,668**	**980,695**
Non-current provisions	(17), (18), (19)	86,819	69,029
Non-current financial liabilities	(20), (22)	105,938	82,775
Non-current lease liabilities	(9)	789,472	0
Deferred tax liabilities	(5)	11,264	12,632
Other non-current liabilities	(21)	490	60,670
Non-current liabilities		**993,983**	**225,106**
Current provisions	(17)	91,746	97,671
Current financial liabilities	(20), (22)	112,014	93,361
Current lease liabilities	(9)	167,703	0
Income tax payables	(5)	65,683	43,526
Trade payables		314,646	295,106
Other current liabilities	(21)	130,022	123,092
Current liabilities		**881,814**	**652,756**
Total		**2,877,465**	**1,858,557**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of the HUGO BOSS group for the period from January 1 to December 31, 2019

Consolidated statement of changes in equity (in EUR thousand)

				Retained earnings		Accumulated other comprehensive income		Group equity		
	Subscribed capital	Own shares	Capital reserve	Legal reserves	Other reserves	Currency translation	Gains/losses from cash flow hedges	Total before non-controlling interests	Non-controlling interests	Group equity
Notes	(15)	(15)								
January 1, 2018	**70,400**	**(42,363)**	**399**	**6,641**	**861,971**	**19,168**	**(1,161)**	**915,055**	**(350)**	**914,705**
Net income					236,152			236,152	48	236,200
Other income					4,256	8,010	407	12,673		12,673
Comprehensive income					**240,408**	**8,010**	**407**	**248,825**	**48**	**248,873**
Dividend payment					(182,893)			(182,893)		(182,893)
Changes in basis of consolidation					10			10		10
December 31, 2018	**70,400**	**(42,363)**	**399**	**6,641**	**919,496**	**27,178**	**(754)**	**980,997**	**(302)**	**980,695**
January 1, 2019 (as reported)	**70,400**	**(42,363)**	**399**	**6,641**	**919,496**	**27,178**	**(754)**	**980,997**	**(302)**	**980,695**
Change in accounting policies/corrections (IFRS 16)					969			969		969
January 1, 2019 (adjusted)	**70,400**	**(42,363)**	**399**	**6,641**	**920,465**	**27,178**	**(754)**	**981,966**	**(302)**	**981,664**
Net income					205,112			205,112	130	205,243
Other income					(12,706)	12,016	1,935	1,244		1,244
Comprehensive income					**192,406**	**12,016**	**1,935**	**206,357**	**130**	**206,487**
Dividend payment					(186,344)			(186,344)		(186,344)
Acquisition of non-controlling interests					(353)			(353)	213	(140)
December 31, 2019	**70,400**	**(42,363)**	**399**	**6,641**	**926,175**	**39,194**	**1,180**	**1,001,627**	**41**	**1,001,668**

CONSOLIDATED STATEMENT OF CASH FLOWS

of the HUGO BOSS group for the period from January 1 to December 31, 2019

Consolidated statement of cash flows (in EUR thousand)

	Notes	**2019**	2018
	(25)		
Net income		205,243	236,200
Depreciation/amortization	(8)	362,463	129,680
Unrealized net foreign exchange gain/loss		(3,687)	3,277
Other non-cash transactions		1,093	(76)
Income tax expense/refund	(5)	100,350	100,470
Interest income and expenses	(4)	31,465	3,213
Change in inventories		3,514	(72,306)
Change in receivables and other assets		8,666	(12,957)
Change in trade payables and other liabilities		37,767	22,346
Result from disposal of non-current assets		(1,192)	(144)
Change in provisions for pensions	(19)	(11,838)	(9,450)
Change in other provisions		(5,218)	(6,685)
Income taxes paid		(76,909)	(71,577)
Cash flow from operating activities		**651,717**	**321,991**
Investments in property, plant and equipment	(8)	(157,633)	(122,267)
Investments in intangible assets	(8)	(33,680)	(30,710)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired		0	(849)
Acquisition of groups of assets		(3,872)	0
Cash receipts from sales of property, plant and equipment and intangible assets		435	1,893
Cash flow from investing activities		**(194,750)**	**(151,933)**
Dividends paid to equity holders of the parent company	(16)	(186,344)	(182,893)
Change in current financial liabilities	(22)	(107)	23,163
Cash receipts from non-current financial liabilities	(22)	0	24,403
Repayment of non-current financial liabilities	(22)	(35,000)	(3,426)
Cash outflows of rent payments		(227,394)	0
Interest paid		(24,926)	(2,200)
Interest received		1,623	2,012
Cash flow from financing activities		**(472,148)**	**(138,941)**
Exchange-rate related changes in cash and cash equivalents		1,089	(100)
Change in cash and cash equivalents		**(14,092)**	**31,017**
Cash and cash equivalents at the beginning of the period		146,717	115,700
Cash and cash equivalents at the end of the period	(14)	**132,625**	**146,717**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2019

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 segment.

The consolidated financial statements of HUGO BOSS AG as of December 31, 2019, were prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the additional regulations pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code].

The consolidated financial statements and the combined management report of HUGO BOSS AG, Metzingen, were approved by the Managing Board for submission to the Supervisory Board by a decision of February 20, 2020.

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

Financial Reporting

Adoption of the standards and interpretations of the IASB revised in 2019 resulted in material effects on the presentation of the Group's results of operations, net assets and financial position.

The following material new accounting standard was compulsory and applicable as of the fiscal year 2019:

IFRS 16: Leases
The new IFRS 16 "Leases" standard provides guidance on recognition, measurement, presentation and relevant disclosure requirements, and replaces IAS 17 and its related interpretations. The provisions of IFRS 16 requires the lessee to disclose certain lease arrangements on the balance sheet in the form of lease liabilities and a right-of-use to the leased asset. This means that the distinction for the lessee between financing and operating lease arrangements no longer applies.

The first-time application of IFRS 16 was carried out in accordance with the provisions of the modified approach for transition. Here, the lease obligation is recognized at the present value of the outstanding lease payments at the time of conversion. The right-of-use are recognized at the amount of the relevant lease liability, adjusted by the amount of the lease payments made in advance or accrued. This did not have a material effect on equity. The comparative figures for fiscal year 2018 were not adjusted in line with the modified approach for transition.

Group Leasing Arrangements and their Treatment on the Balance Sheet

The Group has entered into a substantial number of leases for retail stores, office spaces and warehouses.

In accordance with IFRS 16, the lessee discloses a lease liability of the value of the future lease payments in the balance sheet as well as a corresponding right-of-use asset. The lease payments comprise the total of all fixed lease payments less incentive payments for the conclusion of the contract, variable lease payments that are linked to an index or (interest) rate and amounts that are expected to be due for payment within the scope of residual value guarantees. Lease extension options are to be included if their exercise is sufficiently certain. Contractually agreed compensation payments in the event of an early termination of the contract by the lessee must also be recorded, unless it can be assumed with sufficient certainty that the contract will be continued.

The leasing liability is compounded over the term of the contract using the effective interest method, and is updated actuarially with consideration of the lease payments made.

The parallel right-of-use to be applied is always to be capitalized with the value of the leasing liability. Lease payments already made and directly allocable costs are also to be included. Payments received from the lessor that are related to the lease are to be deducted. Restoration obligations under leasing conditions shall also be considered in the valuation of the right-of-use. A provision must be expensed for the obligation. The right-of-use is amortized systematically over the term of the lease agreement.

The depreciation of the capitalized right-of-use asset and the interest expense from the compounding of the recognized lease liability are recognized in the income statement.

Liabilities from finance leases were recognized under "Financial liabilities" until December 31, 2018. The related assets were classified under property, plant and equipment. In the course of the first-time application of IFRS 16 as of January 1, 2019, the present value of finance lease liabilities was reclassified to the item "Lease liabilities" and the net carrying amount of the assets was reported as the right to use leased assets.

Key Assumptions

The determination of the conversion effect was based on assumptions for the discount rates used, the terms of the lease agreements, and the accrual of fixed lease payments. To determine the present value of future minimum lease payments, HUGO BOSS uses interest rates for borrowings, which may vary depending on the term of the lease and local conditions. The average interest rate used for the first-time application as of January 1, 2019, was 2.9%. In addition to the basic rental period, the Group includes extension options when determining the term of the contract if the extension has already been finally negotiated with the lessor and has been signed by both parties. Past experience has shown that, for reasons of flexibility and costs, stores that were considered to be due for extension in the planning in the prior year have not been extended and therefore extension options have not been used. Therefore, sufficient certainty is only present when the contract is signed. For contracts that do not have a fixed term, the term used to determine the right-of-use asset and lease liability is based on the average remaining useful life of the leasehold improvements in the respective contract.

Exercise of Options

Various options are provided for the lessee. The Group exercises the option to not apply right-of-use to low-value assets (limited to less than EUR 5 thousand) or to short-term leasing agreements (lasting 12 months or less). Accordingly, lease expenses for these assets must be recognized directly in the income statement. Furthermore, the option to sever lease and non-lease (service) components will be exercised, and the non-lease components will not be considered in right-of-use to be applied. In addition, the option of reducing provisions for impending losses will be exercised. To the extent that these have been formed in connection with leases, they can be offset against the right-of-use as of January 1, 2019.

The standard was applied as of January 1, 2019 to all existing contracts falling within its scope. No new assessment was made with regard to the evaluation of existing leasing agreements.

Effects of IFRS 16 as of January 1, 2019

The first-time application of IFRS 16 affected the following positions on the balance sheet, in the income statement and in the consolidated statement of cash flows:

On the date of first-time application, January 1, 2019, total assets increased significantly in the amount of EUR 990.7 million as a result of the right-of-use to be capitalized.

The reconciliation of the operating lease obligations as of December 31, 2018 with the recognized lease liabilities as of January 1, 2019 is as follows:

Reconciliation of lease liability (in EUR thousand)

Operating lease liability as of December 31, 2018[1]	**1,270,634**
Current lease liability due within 12 months	(2,578)
Lease liability from low-value assets and furnishings	(3,370)
Lease liability from software	(27,254)
Non-lease related components (service)	(6,957)
Others	(11,648)
Gross lease liability as of January 01, 2019	**1,218,827**
Discounting	(162,348)
Present value of the lease liability due to the first time application of IFRS 16 as of January 01, 2019	**1,056,479**
Present value of the liability from finance lease as of December 31, 2018	4,750
Total lease liability as of January 01, 2019	**1,061,229**

[1] Adjusted figures for previous year.

As part of the transition to the new lease standard, the adjustment of the right-of-use assets for lease objects was carried out for all IFRS 16-relevant lease agreements to include prepaid or accrued liabilities arising from lease obligations (straight-lining) in the amount of EUR 72.8 million. In addition, a conversion effect in the amount of EUR 1 million due to differences in useful lives between right-of-use and straight lining was recognized in the retained earnings.

For fiscal year 2019, there was a positive effect on the operating result (EBIT) in the amount of EUR 11.8 million due to the first-time application of IFRS 16. At the same time, the Group's net income decreased by EUR 7.0 million. The first-time application of the new lease standard led to an increase in free cash flow in the amount of EUR 249.6 million.

More detailed information on the effects of the application of IFRS 16 on the balance sheet, income statement and the consolidated statement of cash flows can be found in Note 9.

Change in Presentation
From fiscal 2019, all other operating income and expenses will no longer be reported as separate items in the income statement, but will be broken down into the respective originating functional areas. In order to ensure comparability with the previous period, all figures for the 2018 comparative period have been restated in accordance with the provisions of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

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, 2019. The main Group companies included in the consolidated financial statements are as follows:

GRAMOLERA Grundstücks-Vermietungsgesellschaft Objekt Ticino mbH	Metzingen, Germany[2]
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 Beteiligungsgesellschaft mbH	Metzingen, Germany[2]
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 Internationale Beteiligungs-GmbH	Metzingen, Germany[2]
HUGO BOSS Italia S.p.A.	Milan, Italy
HUGO BOSS Retail, Inc.	New York, NY, USA
HUGO BOSS Textile Industry Ltd.	Izmir, Turkey
HUGO BOSS Ticino S.A.	Coldrerio, Switzerland
HUGO BOSS Trade Mark Management GmbH & Co. KG	Metzingen, Germany[2]
HUGO BOSS UK Limited	London, Great Britain
HUGO BOSS Vermögensverwaltungs GmbH & Co. KG	Metzingen, Germany[2]
Lotus (Shenzhen) Commerce Ltd.	Macau, China
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstraße KG	Grünwald, Germany[2]
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG	Grünwald, Germany[1,2]

[1] Investments with a 94% share in capital and 15% of voting rights.
[2] Subsidiaries that exercise the exemption of Sec. 264 (3) and 264b HGB ["Handelsgesetzbuch": German Commercial Code].

In the reporting period from January 1 to December 31, 2019, the number of consolidated companies did not change compared with the consolidated financial statements as of December 31, 2018. BIL Leasing Verwaltungs-GmbH & Co. 869 KG was merged as of October 1, 2019. HUGO BOSS Florida, Inc., which was founded in 2018, was included in the consolidated financial statements as of September 30, 2019.

Companies in which HUGO BOSS and one more party have joint control are accounted for using the equity method:

GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG	Grünwald, Germany[1]
HUGO BOSS ALFUTTAIM UAE TRADING L.L.C.	Dubai, V.A.E.[2]

[1] Investment with a 100% share in capital and 15% of voting rights.
[2] Investment with a 49% share in capital and 49% of voting rights.

Concerning the consolidation of structured entities, HUGO BOSS performs judgements insofar as leasing property companies are included in the scope of consolidation, if HUGO BOSS has the power of control over the companies' relevant activities and has therefore the ability to affect the amount of their variable returns. In its assessment of the first-mentioned company, HUGO BOSS assumes that the power of control over the relevant activities exists in those cases in which the purchase rights over the shares of the property companies represent a favourable purchase option in relation to their future market value. Significant influencing factors that are dependent on the measure are the externally observable developments of the property values, the achievable gross rental income of the properties, as well as the underlying projected real estate interest. HUGO BOSS assesses these factors at the end of each fiscal year. As of December 31, 2019, HUGO BOSS assumes that the purchase rights are still unfavourable and therefore do not represent the power of control over the relevant activities of the companies.

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 =	**2019**	2018	**2019**	2018
Australia	AUD	1.6143	1.5858	1.5995	1.6220
China	CNY	7.7880	7.8465	7.8205	7.8750
Great Britain	GBP	0.8476	0.8975	0.8508	0.8945
Hong Kong	HKD	8.6659	8.9011	8.7473	8.9675
Japan	JPY	121.2561	127.8542	121.9400	125.8500
Switzerland	CHF	1.0931	1.1294	1.0854	1.1269
Turkey	TRY	6.4814	6.0303	6.6621	6.0422
U.S.A.	USD	1.1103	1.1380	1.1234	1.1450

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

Income is recognized in accordance with IFRS 15: HUGO BOSS recognizes income from the sale of goods when control of the goods is transferred to the buyer. In the wholesale channel, 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, the control passes to the customer upon payment for 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 control of the goods sold passes 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.

Shop fit contributions to retailers are recognized in the income statement as sales deductions.

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.

Receivables and provisions for current income taxes are recognized as soon as the realization is probable.

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 for property, plant and equipment and intangible assets are reviewed periodically to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits from the respective assets.

Impairment of non-financial assets
Non-financial assets (property, plant and equipment and right-of-use assets from leases 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

Since fiscal year 2019, leases of the HUGO BOSS Group have been recognized in accordance with the provisions of IFRS 16. In accordance with IFRS 16, there is a lease relationship if the lessor has contractually transferred the right to use an identified asset for a defined period in return for remuneration by the lessee. More detailed information on accounting policies can be found in the "Changes to accounting methods" section.

In fiscal year 2018, HUGO BOSS acquired existing leases in accordance with the requirements of IAS 17. On this basis, leases were classified as finance leases if the lessee essentially bore all the opportunities and risks associated with ownership of the leased asset and therefore the economic ownership of the lease relationship is attributed to the lessee. The depreciation methods and useful lives corresponded to those of comparable acquired assets. Leased assets were 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 were added to the carrying amount of the asset. The lease obligations were amortized and assessed in accordance with the effective interest method and were reported under financial liabilities. The interest portion of the lease liabilities was recognized in the income statement over the term of the lease.

In contrast, leases were classified as operating leases if the lessor was the beneficial owner of the property. The lease objects were therefore recognized in the lessor's books. The lease expenses incurred by HUGO BOSS as lessee were recognized in profit or loss over the term of the lease.

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:

FVTPL Financial assets and liabilities valued at Fair Value Through Profit or Loss.
AC Financial assets and liabilities that continue to be valued at Amortized Cost through the effective interest method.
FVOCI Assets and liabilities valued at Fair Value through Other Comprehensive Income.

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

Financial assets
Financial assets are initially classified under IFRS 9 using a two-stage test whereby the respective cash flow conditions and the business model for management of financial assets are examined. This test takes place at the financial instrument level.

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

All purchases and disposals of financial assets are recognized at their value at the settlement date, the day when the group is obliged to purchase or sell the asset.

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.

Where material, the HUGO BOSS Group calculates and records an allowance under the Expected Loss Model in IFRS 9 for all financial instruments that are not classified as FVTPL. The Expected Credit Loss (ECL) is always determined in a two-stage process. Only defaults that are likely within one year are considered for portfolios that have seen no significant increase in credit risk since their inception (12-month ECL). However, for portfolios that have seen a significant increase in credit risk since their inception, all defaults expected over their term are considered (lifetime ECL).

In its evaluation of whether the credit risk of a financial asset has changed, the Group utilizes all reasonable and reliable information that is available without excessive cost or expenses.

The simplified approach is used for trade receivables that have no significant financial components. This means that the Group does not monitor changes to credit risk, but rather records an ECL based on their lifetime for each reporting date. Individual receivables are grouped together based on country and business model-specific portfolios and evaluated using an industry-specific average probability of default for calculation. The model implemented is based on internal historical credit default data and is supplemented and adjusted using external market data with a forward-looking component. This means that modifications of future market expectations directly influence the ECL and are recognized respectively as value adjustments.

The FVTPL (fair value through profit or loss) category is assigned to financial assets when they meet the requirements of the SPPI test and the testing of the business model for management of financial asset value under IFRS 9. This includes derivative financial instruments that are not designated to an effective hedging relationship in accordance with IFRS 9. Gains and losses from financial assets are always posted to profit or loss.

Financial assets that are assigned to the AC category 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.

HUGO BOSS classifies a receivable as in default when a debtor does not settle contractual payments that are over 90 days overdue. When receivables are written off or derecognized, the Group continues to conduct recovery measures to collect the receivable due. In some cases, a financial instrument may nevertheless also be treated as in default or partially in default if internal or external information indicates that full collection of the outstanding payment is viewed as unlikely. Individual depreciation rates between 1% and 100% are used in this case. A financial asset is derecognized when there is no reasonable prospect of repayment of the contractual cash flows.

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 IFRS 9 for the designation of hedges are satisfied.

Under IFRS 9, all derivative financial instruments currently held by the Group are generally to be classified as FVTPL (fair value through profit or loss) and to be accounted at fair value, unless they are part of an effective hedging relationship. 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 IFRS 9 (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 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 rebuild obligations
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 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.

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 2019
There were no takeovers in the 2019 financial year.

Takeovers in fiscal year 2018
A store of a franchisee in Grenoble, France, was taken over by HUGO BOSS France SAS in the fourth quarter of fiscal year 2018 under a share deal. The following overview shows the allocation of the purchase price of EUR 849 thousand to the acquired net assets as well as the resulting goodwill:

(in EUR thousand)	2018
Purchase consideration transferred	
Agreed purchase price	849
Liabilities incurred	0
Total purchase price	**849**
Fair value of the acquired assets and liabilities assumed	
Intangible assets	320
Property, plant and equipment	89
Inventories	0
Total assets	**409**
Total liabilities	**0**
Goodwill	**440**

Control over the assets was achieved through payment of the agreed purchase price. Goodwill is attributable to Europe and contains non-separable intangible assets and expected synergy effects. Transaction costs of an immaterial amount arose and were recognized immediately through profit or loss in the consolidated income statement.

Acquisition of non-controlling interests without change of control
On October 1, HUGO BOSS AG acquired the remaining 6% share in the previously fully consolidated BIL Leasing Verwaltungs-GmbH & Co. 869 KG, Pullach, Germany. As a result, all shares in the company were held by HUGO BOSS AG as the only remaining shareholder and BIL Leasing Verwaltungs-GmbH & Co. 869 KG, Pullach, Germany, was transferred to HUGO BOSS AG by accrual. The purchase price paid to the general partner as part of the transaction was EUR 140 thousand. The carrying amount of the non-controlling shares acquired amounted to EUR 213 thousand. The difference between the purchase price and the carrying amount of EUR 353 thousand was recognized directly in equity.

(in EUR thousand)	**2019**
Carry amount of non-controlling interests acquired	(213)
Purchase price agreed upon	(140)
Difference recognized directly in consolidated equity	**(353)**

Notes to the Consolidated Income Statement

1 | Sales and cost of sales

Sales

(in EUR thousand)

	2019	2018
Group's own retail business	1,869,105	1,768,003
Directly operated stores	1,110,163	1,095,547
Outlet	607,861	561,951
Online	151,080	110,505
Wholesale	931,243	951,797
Licenses	83,708	76,163
Total	**2,884,056**	**2,795,963**

Cost of Sales

(in EUR thousand)

	2019	2018[1]
Total cost of goods	**1,008,619**	**972,698**
Cost of purchase	898,954	865,886
Thereof cost of materials	886,318	845,727
Cost of conversion	109,665	106,812

[1] Adjusted previous year figures.

The cost of materials included in the cost of sales include inbound freight and customs costs of EUR 119,620 thousand (2018: EUR 123,175 thousand).

2 | Selling and distribution expenses

(in EUR thousand)

	2019	2018[1]
Expenses for Group's own retail business, sales and marketing organization	963,693	914,578
Marketing expenses	179,600	174,340
Thereof expenses	184,467	189,275
Thereof income from allocation of marketing expense	(4,867)	(14,936)
Logistic expenses	91,294	86,774
Total	**1,234,587**	**1,175,692**
Thereof other taxes	2,505	3,488

[1] Adjusted previous year figures.

The expenses for the Group's own retail business and the sales and marketing organization mostly relate to personnel and lease expenses for wholesale and retail distribution, as well as depreciation of right-of-use assets for lease objects from IFRS 16. They also include sales-based commission, freight-out, customs costs, credit card charges and impairment losses to assets of retail stores. This item also includes impairment losses to trade receivables of EUR 5,766 thousand (2018: EUR 2,089 thousand).

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

3 | Administration expenses

(in EUR thousand)

	2019	2018[1]
General administrative expenses	**231,112**	**237,336**
Research and development costs	**65,242**	**63,428**
Thereof personnel expenses	47,256	45,300
Thereof depreciation and amortization	2,626	1,905
Thereof other operating expense	15,360	16,223
Total	**296,354**	**300,764**
Thereof taxes	4,188	4,584

[1] Adjusted previous year figures.

Administration expenses mainly comprise depreciation of right-of-use assets for lease objects, 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.

Administration expenses include other income of EUR 15,832 thousand (2018: EUR 13,326 thousand). This includes, among other things, capitalized internally developed software and canteen income. Additionally, income was generated by the reversal of provisions by EUR 6,938 thousand (2018: EUR 4,378 thousand).

4 | Financial result

(in EUR thousand)

	2019	2018
Interest and similar income	1,609	2,019
Interest and similar expenses	(33,074)	(5,232)
Net interest income/expenses	**(31,465)**	**(3,213)**
Exchange rate gains/losses from receivables and liabilities	3,202	(3,735)
Gains/losses from hedging transactions	(10,305)	(5,187)
Other financial expenses/income	(335)	1,996
Other financial items	**(7,438)**	**(6,926)**
Financial result	**(38,903)**	**(10,139)**

Interest income includes income from bank deposits amounting to EUR 1,033 thousand (2018: EUR 494 thousand) and other interest income of EUR 576 thousand (2018: EUR 1,525 thousand).

Interest expenses include expenses from financial liabilities in the amount of EUR 2,853 (2018: EUR 2,217 thousand) and other interest expenses in the amount of EUR 30,221 thousand (2018: EUR 3,015 thousand). These items mainly comprise interest expenses from the discounting of future minimum lease obligations of EUR 22,222 thousand (2018: EUR 0 thousand). In addition to interest on loans, this also includes the net interest amount from for pension provisions, interest on non-financial liabilities (such as tax liabilities from tax audits) and interest expenses from the valuation at present value of other non-current provisions in the amount of EUR 7,999 thousand (2018: EUR 3,015 thousand).

The exchange rate gains and losses from receivables and liabilities comprise exchange rate gains of EUR 23,931 thousand (2018: EUR 21,600 thousand) as well as exchange rate losses of EUR 20,729 thousand (2018: EUR 25,335 thousand). The result from hedging transactions contains the effects from the fair value measurement and derecognition of foreign exchange forwards and swaps.

5 | Income taxes

(in EUR thousand)

	2019	2018
Current taxes	105,159	94,619
Deferred taxes	(4,809)	5,851
Total	**100,350**	**100,470**

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% (2018: 29.5%). The tax rates abroad range between 0% and 34%.

Current income taxes for fiscal year 2019 included non-current expenses of EUR 24,396 thousand (2018: EUR 20,088 thousand) and non-current income of EUR 5,337 thousand (2018: EUR 4,028 thousand) and deductible withholding tax of EUR 1,697 thousand (2018: EUR 3,027 thousand). The non-current expenses include provisions for risks from external tax audits of HUGO BOSS AG for the years from 2012 to 2015.

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% (2018: 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% (2018: 15.8%) and a trade tax rate of 13.7% (2018: 13.7%).

(in EUR thousand)

	2019	2018
Earnings before taxes	**305,593**	**336,670**
Anticipated income tax	90,303	99,486
Tax effect of permanent items	11,089	5,136
Tax rate-related deviation	(19,385)	(20,296)
Thereof effects of changes in tax rates	1,832	261
Thereof adjustment of tax amount to diverging local tax rate	(21,217)	(20,557)
Tax refund/tax arrears	20,757	19,087
Deferred tax effects from prior years	2	(2,420)
Valuation allowance on deferred tax assets	(630)	(166)
Tax effects from distributable profit of subsidiaries	(1,028)	11
Other deviations	(758)	(368)
Income tax expenditure reported	**100,350**	**100,470**
Income tax burden	33%	30%

The income tax burden was reduced by tax-free income of EUR 2,350 thousand (2018: EUR 1,152 thousand). The opposite tax effects as a result of non-deductible business expenses come to EUR 13,439 thousand (2018: EUR 6,288 thousand).

Other comprehensive income includes deferred tax income amounting to EUR 3,247 thousand (2018: expenses of EUR 1,057 thousand). As in the prior year, this amount in the fiscal year 2019 is calculated from the recognition of actuarial gains and losses from provisions for pensions in equity.

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)

	2019		2018	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
Provisions and other liabilities	21,701	(655)	15,810	(22,588)
Unused tax losses	7,578	0	7,188	0
Inventory measurement	29,580	(5,334)	30,701	(3,680)
Recognition and measurement of non-current assets	35,706	(11,658)	54,304	(16,314)
Receivables measurement	3,960	(165)	4,519	(159)
Financial liabilities and financial assets	12,082	(6)	617	(1)
Retained earnings of subsidiaries	0	(3,988)	0	(4,976)
Other differences in recognition and measurement	5,817	(7,958)	14,566	(2,503)
Net amount	**116,424**	**(29,764)**	**127,705**	**(50,221)**
Netting	(18,500)	18,500	(37,589)	37,589
Total	**97,924**	**(11,264)**	**90,116**	**(12,632)**

Of the deferred tax assets, EUR 60,465 thousand (2018: EUR 59,907 thousand) are non-current, while EUR 15,837 thousand (2018: EUR 44,037 thousand) of the deferred tax liabilities are non-current.

Deferred taxes on IFRS 16 balance sheet items were reported on a net basis. The active deferred tax on lease liabilities amounts to EUR 176,305 thousand; deferred tax on rights-of-use assets amounts to EUR 164,708 thousand. After netting, there is a deferred tax claim of EUR 11,597 thousand, which is reported under financial liabilities.

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 1,087 thousand (2018: EUR 1,393 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. For these withholding tax charges, deferred tax liabilities of EUR 2,901 thousand (2018: EUR 3,583 thousand) were recognized.

Further deferred tax liabilities were not recognized due to differences between their respective net assets and tax part carrying amount at subsidiaries amounting to EUR 327,715 thousand (2018: EUR 298,546 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 allowable temporary differences were included insofar as deferred tax liabilities exist or the corporate planning yields a profit in subsequent years. As of the reporting date, deferred tax assets amounting to EUR 24,165 thousand (2018: EUR 30,416 thousand) were accounted for at Group companies that made losses in the reporting period or prior period. Planning assumptions are based on positive business development of the impacted entities during the reporting year. In addition, a business development with a positive impact is expected to be driven by the adjusted price strategy on the sales market as well.

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

(in EUR thousand)

	2019	2018
Expiry within		
1 year	4,475	3,123
2 years	648	5,858
3 years	1,998	669
4 years	356	3,824
5 years	2,375	384
After 5 years	13,498	11,761
Unlimited carryforward	61,943	72,134
Total	**85,293**	**97,753**

As in prior fiscal years, a corresponding deferred tax asset of EUR 7,578 thousand was recognized on unused tax losses as of December 31, 2019 (2018: EUR 7,188 thousand were recognized). In the fiscal year 2019, no deferred taxes were recognized for losses carried forward of EUR 53,767 thousand (2018: EUR 60,398 thousand). Of this, EUR 1,008 thousand (2018: EUR 1,019 thousand) thousand expires in 2020, EUR 303 thousand (2018: EUR 282 thousand) in 2021, EUR 1,271 thousand (2018: 334 thousand) in 2022, EUR 356 thousand (2018: EUR 252 thousand) in 2023, EUR 720 thousand (2018: EUR 79 thousand) in 2024, EUR 420 thousand (2018: EUR 10,514 thousand) in over five years and EUR 49,689 thousand (2018: EUR 47,918 thousand) can be carried forward indefinitely.

Judgments that deferred tax assets are recognized on unused tax losses were made to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses can be utilized. The probability of the future usability is assessed taking into account various factors, such as future taxable results in the planning periods, past results and measures already taken to increase profitability. HUGO BOSS applies a forecast period of a maximum of three years for this purpose. Actual figures may differ from the estimates.

The income tax receivables 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.

An external tax audit has been ongoing at HUGO BOSS AG since 2017 for the 2012–2015 assessment periods. Based on the information available to date, the Company has identified possible tax risks from balance sheet and off-balance sheet items, as well as structural changes. The required provisions were created for this, together with interest. As the external tax audit has not yet been concluded as of the time of presentation of the annual financial statement, new information related to the external tax audit may result in changes to liabilities as of December 31, 2019.

6 | Earnings per share

There were no shares outstanding that could have diluted earnings per share as of December 31, 2019, or December 31, 2018.

(in EUR thousand)

	2019	2018
Net income attributable to equity holders of the parent company	205,113	236,152
Average number of shares outstanding[1]	69,016,167	69,016,167
Earnings per share (EPS) in EUR[2]	2.97	3.42

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

7 | Additional disclosures to the consolidated income statement

Personnel expenses

(in EUR thousand)

	2019	2018[1]
Cost of sales	87,126	82,939
Selling and distribution expenses	373,837	371,273
Administration expenses	178,932	175,235
Total	**639,895**	**629,447**

[1] Adjusted previous year figures.

(in EUR thousand)

	2019	2018
Wages and salaries	541,061	534,492
Social security	94,406	89,268
Expenses and income for retirement and other employee benefits	4,428	5,687
Total	**639,895**	**629,447**

The average headcount for the year was as follows:

Employees

	2019	2018
Industrial employees	5,012	5,023
Commercial and administrative employees	12,032	11,792
Total	**17,044**	**16,815**

Ordinary depreciation

(in EUR thousand)

	2019	2018
Cost of sales	6,013	5,764
Selling and distribution expenses	308,254	79,865
Administration expenses	38,071	37,797
Total	**352,338**	**123,426**

Notes to the Consolidated Statement of Financial Position

8 | Intangible assets and property, plant and equipment

(in EUR thousand)

2019	**Gross value Jan. 1**	Change in the basis of consolidation	Currency differences	Additions	Disposals	Transfers	**Gross value Dec. 31**	**Accumulated amortization, depreciation and impairment Jan. 1**	Change in the basis of consolidation	Currency differences	Depreciation	Impairment	Write-up	Disposals	Transfers	**Accumulated amortization, depreciation and impairment Dec. 31**	**Net value Dec. 31**
Software, licenses and other rights	**263,448**	524	600	29,988	(5,591)	23	**288,992**	**167,516**	0	2,254	20,128	0	0	(5,571)	0	**184,327**	**104,665**
Brand rights	**14,992**	0	0	0	0	0	**14,992**	**0**	0	0	0	0	0	0	0	**0**	**14,992**
Key Money	**43,592**	0	757	3,521	(2,135)	0	**45,735**	**25,905**	0	486	1,451	1,063	(1,475)	(2,636)	0	**24,794**	**20,941**
Internally developed Software	**0**	0	0	0	0	0	**0**	**0**	0	0	0	0	0	0	0	**0**	**0**
Goodwill	**57,804**	0	398	171	0	0	**58,373**	**1,519**	0	3	0	0	0	0	0	**1,522**	**56,851**
Right of Use	**990,682**	0	16,768	154,141	(64,552)	0	**1,097,039**	**0**	0	(618)	228,601	0	0	(8,369)	0	**219,614**	**877,425**
Intangible Assets	**1,370,518**	**524**	**18,523**	**187,821**	**(72,278)**	**23**	**1,505,131**	**194,940**	**0**	**2,125**	**250,180**	**1,063**	**(1,475)**	**(16,576)**	**0**	**430,257**	**1,074,874**
Lands and buildings	**196,134**	49,665	2,033	44,774	(11,355)	979	**282,230**	**102,385**	0	1,157	9,513	0	0	(10,615)	0	**102,440**	**179,790**
Technical equipment and machinery	**80,165**	33,719	176	6,559	(2,247)	1,342	**119,714**	**65,291**	0	159	5,013	0	0	(2,218)	0	**68,245**	**51,469**
Other equipment, operating and office equipment	**840,598**	266	12,670	100,487	(72,671)	26,246	**907,596**	**600,858**	0	8,860	87,632	10,836	(300)	(71,910)	0	**635,976**	**271,620**
Construction in progress	**34,681**	0	46	7,772	(17)	(28,590)	**13,892**	**3**	0	0	0	0	0	0	0	**3**	**13,889**
Property, plant and equipment	**1,151,578**	**83,650**	**14,925**	**159,592**	**(86,290)**	**(23)**	**1,323,432**	**768,537**	**0**	**10,176**	**102,158**	**10,836**	**(300)**	**(84,743)**	**0**	**806,664**	**516,768**
Total	**2,522,096**	**84,174**	**33,448**	**347,413**	**(158,568)**	**0**	**2,828,563**	**963,477**	**0**	**12,301**	**352,338**	**11,899**	**(1,775)**	**(101,319)**	**0**	**1,236,921**	**1,591,642**
2018																	
Software, licenses and other rights	**247,361**	0	356	30,189	(14,694)	236	**263,448**	**152,372**	0	290	29,292	237	0	(14,675)	0	**167,516**	**95,932**
Brand rights	**14,992**	0	0	0	0	0	**14,992**	**0**	0	0	0	0	0	0	0	**0**	**14,992**
Key Money	**45,374**	320	258	841	(3,201)	0	**43,592**	**28,221**	0	118	1,598	1,088	(1,919)	(3,201)	0	**25,905**	**17,687**
Internally developed Software	**5,603**	0	0	0	(5,603)	0	**0**	**5,603**	0	0	0	0	0	(5,603)	0	**0**	**0**
Goodwill	**57,330**	450	64	0	(40)	0	**57,804**	**1,524**	0	(5)	0	0	0	0	0	**1,519**	**56,285**
Right of Use	**0**	0	0	0	0	0	**0**	**0**	0	0	0	0	0	0	0	**0**	**0**
Intangible Assets	**370,660**	**770**	**678**	**31,030**	**(23,538)**	**236**	**379,836**	**187,720**	**0**	**403**	**30,890**	**1,325**	**(1,919)**	**(23,479)**	**0**	**194,940**	**184,896**
Lands and buildings	**216,244**	0	1,982	4,866	(18,108)	(2,450)	**202,534**	**112,367**	0	1,198	9,432	0	0	(18,084)	(2,528)	**102,385**	**100,149**
Technical equipment and machinery	**80,760**	0	82	1,904	(2,978)	397	**80,165**	**63,892**	0	81	4,277	0	0	(2,959)	0	**65,291**	**14,874**
Other equipment, operating and office equipment	**851,648**	89	6,171	95,135	(118,244)	5,799	**840,598**	**623,329**	0	5,662	78,827	9,359	(2,511)	(116,336)	2,528	**600,858**	**239,740**
Construction in progress	**16,600**	0	164	21,925	(26)	(3,982)	**34,681**	**3**	0	0	0	0	0	0	0	**3**	**34,678**
Property, plant and equipment	**1,165,252**	**89**	**8,399**	**123,830**	**(139,356)**	**(236)**	**1,157,978**	**799,591**	**0**	**6,941**	**92,536**	**9,359**	**(2,511)**	**(137,379)**	**0**	**768,537**	**389,441**
Total	**1,535,912**	**859**	**9,077**	**154,860**	**(162,894)**	**0**	**1,537,814**	**987,311**	**0**	**7,344**	**123,426**	**10,684**	**(4,430)**	**(160,858)**	**0**	**963,477**	**574,337**

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 85,096 thousand (2018: EUR 86,440 thousand) were capitalized in connection with the ERP system, of which EUR 72,270 thousand (2018: EUR 72,052 thousand) had already been amortized as of the reporting date. The remaining amortization period is 4.2 years (2018: 2.1 years). Apart from the aforementioned software, other software licenses totaling EUR 85,229 thousand (2018: EUR 73,812 thousand) are included, whose remaining amortization period is 4.8 years (2018: 3.6 years). The average useful life of software and licenses is in between 3 to 7 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 (2018: 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 20,941 thousand (2018: EUR 17,687 thousand) was recognized as of the reporting date. Of that amount, EUR 9,589 thousand (2018: EUR 6,719 thousand) pertains to key money with an infinite useful life and EUR 11,353 thousand (2018: EUR 10,968 thousand) to key money with a finite useful life. As of December 31, 2019, key money with an infinite useful life only concerns the Group's own retail stores in France. The key money with a finite useful life has a remaining amortization period of 8.7 years (2018: 7.5 years) and mainly refers to the Group's own retail stores in Switzerland, Spain, and Italy. 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 135,419 thousand (2018: EUR 27,177 thousand).

Impairment losses amounting to EUR 10,836 thousand and reversals of impairment losses amounting to EUR 300 thousand, net impairment amounting to EUR 10,536 thousand (2018: EUR 6,848 thousand), were record 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 401 thousand (2018: EUR 8,591 thousand). Of this amount, EUR 104 thousand (2018: EUR 7,241 thousand) is attributable to property, plant and equipment and EUR 297 thousand to intangible assets (2018: EUR 1,350 thousand). The obligations as of December 31, 2019, are due for settlement within one year.

Acquisition of a group of assets

In the fourth quarter of 2019, HUGO BOSS AG made a severance payment in the amount of EUR 4,300 thousand to the general partner of the Distribution Center Vermietungsgesellschaft mbH & Co.object HUGO BOSS Filderstadt KG. As a result, all shares were transferred to HUGO BOSS AG after the general partner resigned. The Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG was thus transferred to HUGO BOSS AG.

This transaction does not constitute an acquisition of a business as defined by IFRS 3, but rather the acquisition of a group of assets. As part of the acquisition process, all assets and liabilities were therefore measured on the basis of the respective standard. The difference between the total purchase price and the fair values of the assets and liabilities was allocated on the basis of the relative fair values. This led to an addition of intangible assets of EUR 500 thousand and property, plant and equipment of EUR 83,659 thousand.

9 | Leases

The HUGO BOSS Group has been applying the new standard IFRS 16 since January 1, 2019. Information on the first-time application of IFRS 16 is provided in the “Changes to accounting methods” section. In prior years, leases were recognized in accordance with the requirements of IAS 17. More detailed information can be found in the note on the accounting policies.

HUGO BOSS has concluded material lease agreements for the rental of retail stores and office and storage space, with an average term of 5 years, which were classified as relevant for IFRS 16. Some of the agreements include purchase and renewal options. For leases of low-value assets and for short-term lease liabilities, the option of immediately recognizing expenses was exercised. Similarly, leases with variable rent payments for which no minimum rents are stipulated in the contract are directly recognized as expenses. As a result, the right-of-use asset and lease liability are not recognized.

The effects of all HUGO BOSS Group leases on the balance sheet, the income statement and the consolidated statement of cash flows as at December 31, 2019, are presented below:

Leases in the balance sheet

Additions, depreciation and changes in the right-of-use assets of lease objects are divided as follows between the assets underlying the leases as at December 31, 2019:

(in EUR thousand)

	Stores	Warehouse	Offices and others	Total
Carrying amount as of Jan. 1, 2019	**814,350**	**86,237**	**90,095**	**990,682**
Additions	138,083	6,330	9,728	154,141
Depreciation	(203,678)	(6,771)	(18,152)	(228,601)
Disposal	(2,980)	(53,010)	(193)	(56,183)
FX differences				17,386
Carrying amount as of Dec. 31, 2019	**745,775**	**32,786**	**81,478**	**877,425**

Maturity analysis of lease liabilities

The following table shows the breakdown of lease liabilities according to their maturities:

(in EUR thousand)

	Discounted
Due within one year	167,703
Due between one and five years	538,485
Due after five years	250,987
Total	**957,175**

In the prior year, HUGO BOSS only recognized lease assets and lease liabilities for leases that were classified as financial leases under IAS 17. The liabilities of EUR 4,750 thousand were reported under the current and non-current financial liabilities. The associated assets were classified under property, plant and equipment. For operating leases, the lease objects were recognized by the lessor. The lease expenses incurred for this purpose were recognized as expenses on a straight-line basis over the term of the lease. In fiscal year 2018, rental expenses in the amount of EUR 402,708 thousand were incurred for operating leases. In the subsequent periods, nominal minimum lease payments of EUR 1,270,634 thousand were expected for these contracts.

The amounts included in the income statement and the consolidated statement of cash flows as of December 31, 2019, applicable to the leases are shown in the following tables:

Leases in the income statement

(in EUR thousand)

	2019
Depreciation RoU Assets	(228,601)
Impairment of RoU Assets	0
Net income from disposal of RoU Assets	281
Interest expenses for lease liabilities	(22,222)
Income/expenses from foreign exchange differences on lease liabilities	9
Expenses from variable lease payments	(132,992)
Expenses for short-term leases	(2,578)
Expenses for leases of low-value assets	(4,641)
Income from subleases	1,397
Lease expenses for software	(15,764)
Other expenses (service costs)	(34,046)
Total expenses from lease agreements	**(439,157)**

Leases in the consolidated statement of cash flows

(in EUR thousand)

	2019
Interest paid on lease liabilities	(22,222)
Repayment of lease liabilities	(227,394)
Variable lease payments	(132,992)
Payments for short-term leases	(2,578)
Payments for operating leases of low-value assets	(4,641)
Payments received from subleases	1,397
Payments for software	(15,764)
Other payments	(34,046)
Total cash outflows for leases	**(438,240)**

Material future non-recognized lease payments with maturities

The following future lease payments are not included in the valuation of lease liabilities as a result of IFRS 16 regulations:

(in EUR thousand)

	Due 2020	Due 2021–2024	Due after 2024	Total
Variable lease payments	160,704	667,284	891,978	1,719,966
Payments from uncertain termination options	229	167	0	396
Payments from uncertain extension options	3,600	151,727	276,823	432,150
Total lease payments	**164,533**	**819,178**	**1,168,801**	**2,152,512**

In addition, payments from short-term leases, leases for software and for low-value assets are expected, although these are immaterial from the perspective of the HUGO BOSS Group.

The determination of future off-balance sheet lease payments is based on management assumptions regarding the term of the leases and the amount of the lease payment. In determining future lease payments, HUGO BOSS assumes the remaining term of the original lease plus the one-time exercise of renewal options, which are not yet sufficiently certain based on current knowledge. The future variable lease payments are derived on the basis of the sales planned for DOS and outlets bottom-up for 2020 and projected using a like-for-like growth rate. Future payments from uncertain renewal options take into account all contracts with renewal options existing as of December 31, 2019, and are based on the assumption of constant future rental payments.

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, 2019:

- Other intangible assets with infinite useful lives (key money)
- Brand rights with an infinite useful life
- Goodwill

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 of 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. Furthermore, the gross profit margin of the upstream entities and the corporate assets at the level of the subsidiary and at the level of the DOS were taken into consideration. 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 expected nominal retail growth in each respective market for the corresponding planning year. Single-digit to low double-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, the cash flows were discounted using a weighted average cost of capital of between 4.2% and 19.5% (2018: between 3.7% and 20.8%). This was based on a risk-free interest rate with an equivalent term of (0.7)% (2018: 0.1%) and a market risk mark-up of 6.5% (2018: 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 legal framework and available information, the fair value, in particular for key money with a limited useful life, is determined on the basis of past and comparable transactions using a multiplier method or as the present value of rental price differences between the current rental agreement and the current market rent, with the rental agreement determining the valuation period. If the carrying amount of the DOS assets exceeds the calculated value in use, the fair value of the right of use is also calculated separately using external data sources. If the conditions under which the lease was concluded correspond to current market conditions, the value of the right of use is assumed to be recoverable.

Reversals of past depreciation and amortization were also analyzed from the study of the reversal for 2019 under the impairment model. An additional triggering event test was conducted for this to check whether the indicators show that stores amortized in the past could achieve a turnaround and become profitable again. In so doing, stores that experienced an impairment loss in the last three years are reviewed, as the life cycle of a store's fixed assets limits possible reversal to an average of five years.

A reversal was estimated in fiscal year 2019 at EUR 1,775 thousand (2018: EUR 4,430 thousand) for 5 stores based on the additional triggering events tests.

Scheduled DOS impairment testing in the past fiscal year resulted in net impairment losses on non-current assets of EUR 10,348 thousand (2018: EUR 6,184 thousand), which were recognized through profit or loss under "Selling and distribution expenses". The impairments pertain in particular to retail locations in the Americas and Europe.

Based on the calculation of the fair value by external assessors, for the DOS with allocated key money with an infinite useful life net write-up gains of EUR 224 thousand (2018: net impairment losses of EUR 70 thousand) were allocated in the fiscal year 2019.

Goodwill and intangible assets with infinite 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 year 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 four 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, 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, 2019, is based on a risk-free interest rate of 0.1% (2018: 1.00%) and a market risk mark-up of 6.5% (2018: 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 off 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). Production units will continue to be regarded as corporate assets. The joint assets are taken into account in the impairment tests of the units. 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**
2019				
DOS within the sales unit France	1,476	9,589	5.5%	3.3%
Sales unit Macau	6,373	0	5.9%	3.1%
Sales unit Australia	8,336	0	6.9%	3.0%
Sales unit South Korea	7,471	0	6.6%	3.5%
Sales unit China	9,058	0	8.3%	3.5%
Sales unit U.S.A & Canada	3,288	13,615	7.1%	3.0%
Sales unit Italy	436	1,377	7.1%	2.2%
Sales unit Dubai	6,342	0	8.6%	3.0%
Other sales units	14,071			
Total	**56,851**	**24,581**	**5.5–8.6%**	**2.2–3.5%**
2018				
DOS within the sales unit France	1,472	6,719	5.4%	3.3%
Sales unit Macau	6,212	0	5.6%	3.1%
Sales unit Australia	8,224	0	7.0%	3.0%
Sales unit South Korea	7,574	0	6.5%	3.5%
Sales unit China	8,995	0	7.8%	3.5%
Sales unit U.S.A.	3,106	13,615	7.1%	3.0%
Sales unit Italy	435	1,377	7.1%	2.2%
Sales unit Dubai	6,226	0	8.4%	3.0%
Other Sales units[1]	14,041			
Total	**56,285**	**21,711**	**5.4–8.4%**	**2.2–3.5%**

[1] Other sales units adjusted compared to the previous year.

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 measures 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.

As in the previous year, no impairment loss was recognized for goodwill in fiscal year 2019.

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 2019 and 2018.

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:

- Sustainable nominal 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.

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 DOS – The forecast period is based on the average remaining terms of the lease agreements, which are determined and reviewed on an annual basis. Renewal options are also taken into account when determining the average remaining terms.

Sensitivity to changes in assumptions
As of December 31, 2019, 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. 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, with the expection of the CGU in South Korea, as in the prior year, exceed their carrying amounts. In regards to the CGU in South Korea, a reduction of the growth rate by 15.0% with the same costs would result in a write-down requirement of EUR 6,577 thousand.

If the annual growth rate were reduced by 4.7%, the recoverable amount would be equal to the carrying amount of the CGU.

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)

	2019			2018		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Financial assets	49,586	32,341	17,245	49,281	31,998	17,283
Tax refund claims and prepayments	18,098	18,098	0	23,709	23,697	12
Other assets	107,223	105,103	2,120	101,906	99,026	2,880
Other financial assets	4,273	0	4,273	1,737	0	1,737
Total	**179,180**	**155,542**	**23,638**	**176,633**	**154,721**	**21,912**

Financial assets include positive market values of currency hedges amounting to EUR 1,828 thousand (2018: EUR 560 thousand) as well as rent deposits for the Group’s own retail stores of EUR 10,923 thousand (2018: EUR 10,728 thousand). Financial assets also include receivables from credit card companies amounting to EUR 23,587 thousand (2018: EUR 26,641 thousand).

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

Other assets mainly include prepayments for service agreements in the amount of EUR 18,576 thousand (2018: EUR 18,267 thousand), reimbursement claims from returns in the amount of EUR 18,007 thousand (2018: EUR 20,973 thousand) and receivables from supplier arrangements in the amount of EUR 17,746 thousand (2018: EUR 19,845 thousand). Impairment losses were recognized on other assets in fiscal year 2019; this related to a receivable from the buyer of the former production site in Cleveland for the reimbursement of existing obligations to employees in the amount of EUR 1,602 thousand.

Other financial assets include the shares of jointly controlled entities accounted for using the equity method. The carrying amount of the shares in the property companies whose activities involve the rental of buildings and the related land is EUR 10 thousand. The maximum default risk corresponds to this capital contribution. In addition, the carrying amount of the shares of HUGO BOSS AL FUTTAIM UAE TRADING L.L.C. as of December 31, 2019, was EUR 4,263 thousand (2018: EUR 1,702 thousand). In the fourth quarter of 2019, Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS AG was merged with HUGO BOSS AG. The shares of EUR 25 thousand were transferred to HUGO BOSS AG.

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 jointly controlled entities and not to the Group's share of those associates:

(in EUR thousand)

	2019[1]	2018
Non-current assets	47,066	97,777
Current assets	11,085	9,321
Liabilities	47,144	115,637
Sales	42,700	41,943
Depreciation and amortisation	(7,536)	(8,761)
Other interest and similar income	1	5
Interest and similar expenses	(1,033)	(3,802)
Net profit (loss)	5,720	1,782

[1] The financial information is based on the statements under local law and on the provisional, unaudited annual financial statement as of December 31, 2019. In the previous year, Distributionszentrum Vermietungsgesellschaft mbH & Co. KG was included.

12 | Inventories

(in EUR thousand)

	2019	2018
Finished goods and merchandise	577,466	564,956
Raw materials and supplies	42,931	47,376
Work in progress	6,117	5,615
Total	**626,514**	**617,947**

The carrying amount of inventories carried at net realisable value is EUR 86,252 thousand (2018: EUR 80,114 thousand). In fiscal year 2019, impairment losses of EUR 8,372 thousand (2018: EUR 12,890 thousand) were recognized particularly on finished goods and raw materials. This was counterbalanced by reversals of impairment losses of EUR 6,495 thousand (2018: EUR 14,871 thousand), as previously impaired inventories of finished goods and raw materials could still be sold. Impairment losses on inventories and the reversal of write-downs resulted in net expenses of EUR 1,876 thousand (2018: net income of EUR 1,981 thousand). This is included in the cost of sales.

Significant estimates were made for inventories as shown below: Write-downs are made for inventory risks resulting from the length of storage and the resulting reduced usability in some cases. For raw materials, write-downs are made on the basis of range of coverage and marketability analyses. For

work in progress, finished goods and merchandise, the valuation is based on the net selling price still to be achieved through the Group's own sales channels. To determine the net selling price, the Group uses analyses of the storage period for merchandise and finished goods.

13 | Trade receivables

(in EUR thousand)

	2019	2018
Trade receivables, gross	225,826	225,792
Accumulated allowance	(9,604)	(11,655)
Trade receivables, net	**216,222**	**214,137**

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

(in EUR thousand)

	2019	2018
Trade receivables, net	**216,222**	**214,137**
Thereof neither overdue nor impaired	**193,035**	**184,685**
Thereof overdue, but not impaired	**20,109**	**25,566**
≤ 30 days	15,578	17,959
31 to 60 days	2,414	4,154
61 to 90 days	2,117	3,453
91 to 120 days	0	0
121 to 180 days	0	0
181 to 360 days	0	0
> 360 days	0	0
Thereof: overdue and impaired	**3,078**	**3,886**

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)

	2019	2018
Allowances for doubtful accounts as of January 1	**11,655**	**13,897**
Additions	5,489	3,758
Use	(2,133)	(1,495)
Release	(5,466)	(4,341)
Currency differences	59	(164)
Allowances for doubtful accounts as of December 31	**9,604**	**11,655**

In fiscal year 2019, an expected credit loss (ECL) to be recognized under IFRS 9 was created based on non-due receivables in the amount of EUR 162,130 thousand. As of December 31, this came to EUR 2,399 thousand (2018: EUR 2,207 thousand).

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.

As of December 31, 2019, receivables written-off in the amount of EUR 2,445 thousand (2018: EUR 1,705 thousand) were still subject to recovery measures.

The maximum credit risk from trade receivables corresponding to their gross value is EUR 225,826 thousand (2018: EUR 225,792 thousand) as of the reporting date.

14 | Cash and cash equivalents

(in EUR thousand)

	2019	2018
Balances with banks and other cash items	122,789	135,511
Checks/ec cash	692	800
Cash in hand	9,145	10,406
Total	**132,626**	**146,717**

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, 2019. 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 15, 2024, by issuing 35,200,000 new registered shares on a cash and/or non-cash basis once or repeatedly (authorized capital). In general, 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.

The Group focuses on maximizing free cash flow over the long term in order to increase its enterprise value. Consistently positive free cash flow safeguards the Group's independence and solvency at all times. Increasing sales and EBIT are the main levers for improving free cash flow. In addition, strict management of trade net working capital and value-oriented investment activities 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, 2019, and December 31, 2018.

In addition, the efficient use of capital and the capital structure are regularly monitored on the basis of financial strength, i.e. the ratio of net debt to operating profit (EBITDA) in accordance with the provisions of the current loan agreement:

(in EUR thousand)

	2019	2018
Liabilities due to banks	215,303	168,725
Cash and cash equivalents	(132,626)	(146,717)
Net financial liabilities	**82,677**	**22,008**
Operating profit (EBITDA excl. the impact of IFRS 16)	**466,524**	**489,423**
Total leverage	**0.2**	**0.0**

On the reporting date this ratio was thus substantially lower than the maximum permissible value pursuant to the covenant agreed as part of the syndicated loan agreement.

Own Shares

The number of own shares amounts to 1,383,833 (2018: 1,383,833). The overall percentage amounts to 2.0% of subscribed capital (2018: 2.0%).

At the Annual Shareholder's Meeting of May 12, 2015, a resolution was passed authorizing the Managing Board to acquire 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 205,113 thousand. The net retained profit of HUGO BOSS AG for 2019 proposed to the Annual Shareholders' Meeting for distribution amounts to EUR 189,794 thousand. This corresponds to EUR 2.75 per share. It is also proposed to the Annual Shareholders' Meeting that the dividend attributable to own shares totaling EUR 3,806 thousand be carried forward to the new account.

In 2019, a dividend of EUR 186,344 thousand was paid out for shares outstanding for the fiscal year 2018 (in 2018 for 2017: EUR 182,893 thousand). This corresponds to EUR 2,70 per share for 2018 (2017: EUR 2,65 per share).

17 | Provisions

(in EUR thousand)

	2019	2018
Provisions for pensions	50,982	35,517
Other non-current provisions	35,837	33,512
Non-current provisions	**86,819**	**69,029**
Current provisions	**91,746**	**97,671**
Total	**178,565**	**166,700**

Other provisions of EUR 127,583 thousand (2018: EUR 131,183 thousand) comprise current provisions of EUR 91,746 thousand (2018: EUR 97,671 thousand) and other non-current provisions of EUR 35,837 thousand (2018: EUR 33,512 thousand). The risk-free interest rates used to discount other non-current provisions range between 0.3% and 4.5% (2018: between 0.5% and 4.5%) depending on the term and currency zone in question. In fiscal year 2019, other provisions developed as follows:

(in EUR thousand)

	Balance on Jan. 1, 2019	**Changes in currency and the consolidated group**	**Compounding**	**Addition**	**Use**	**Release**	**Balance on Dec. 31, 2019**
Provisions for personnel expenses	63,840	265	33	47,096	(43,337)	(6,597)	61,300
Provisions for goods returned	26,627	196	0	21,044	(23,009)	(594)	24,264
Provisions for rebuild obligations	17,268	487	82	1,845	(1,161)	(1,194)	17,327
Costs of litigation, pending legal disputes	3,443	(44)	0	4,245	(4,349)	(696)	2,599
Other provisions	20,005	194	0	18,035	(10,657)	(5,484)	22,093
Total	**131,183**	**1,098**	**115**	**92,265**	**(82,513)**	**(14,565)**	**127,583**

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.

In the previous year, a provision was recognized for liability obligations in connection with the sale of the former production site in Cleveland, Ohio, USA. In 2015, HUGO BOSS Cleveland Inc. sold the production site in Cleveland, Ohio. The sale included the transfer of the production employees' obligations from the multi-employer pension fund and other liabilities to the purchaser. Under the provisions of the Employee Retirement Income Security Act (ERISA), the seller may, under certain conditions, be held liable for the subsidiary if the purchaser terminates participation in the pension plan before the end of five years. In January 2019, the purchaser notified HUGO BOSS that it will close its production facility in Cleveland in March 2019. Participation in the multi-employer pension fund terminates as a result of the closure, creating a payment obligation. Subsequently, an assessment was made of the payment obligation of the purchaser by the pension fund, which can be settled quarterly over 20 years or by a one-time payment in accordance with the provisions of the Employee Retirement Income Security Act. Since then, the acquirer has made quarterly payments to the pension fund and it is assumed that the acquirer is in discussions with the pension fund to reduce the amount of the one-time payment. The provision for liability of HUGO BOSS Cleveland Inc. based on the agreed subsidiary liability was adjusted accordingly.

It is expected that EUR 17,481 thousand (2018: EUR 16,386 thousand) of the personnel provisions will be paid out after more than twelve months.

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.

Miscellaneous other provisions

Miscellaneous other provisions are recognized for the potential ramifications of legal 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 | Share-based long-term compensation program

A large part of the long-term provisions for personnel expenses consists of the **Long Term Incentive (LTI) Program** implemented at the beginning of fiscal year 2016. This program serves as a long-term share-based compensation component for the Managing Board and eligible management staff of the HUGO BOSS Group. As of December 31, 2019, there are four tranches in the LTI Program:

- 2016 – 2018 LTI Bonus Plan (issued on January 1, 2016)
- 2017 – 2019 LTI Bonus Plan (issued on January 1, 2017)
- 2018 – 2020 LTI Bonus Plan (issued on January 1, 2018)
- 2019 – 2021 LTI-Bonus Plan (issued on January 1, 2019)

Each plan has a total duration of four years, which is split into a performance term of three years and a qualifying period of one year. The plan participant receives an individual number of virtual shares, the so-called “performance shares” (initial grant) at the beginning of the performance term, calculated as follows:

Individual LTI-budget in euros / average HUGO BOSS share price over the three months before the beginning of the performance term.

The number of the virtual shares issued as of December 31, 2019, and the remaining terms of each plan are displayed in the following table:

LTI Bonus Plan	Number of virtual Shares (Initial Grant)	Remaining Terms
2016 – 2018	136,727	0 years
2017 – 2019	164,681	1 year
2018 – 2020	153,798	2 years
2019 – 2021	187,089	3 years

The final entitlement of the participants in the plan depends on the following components:

(1) individual number of performance shares (initial grant)

(2) degree of attainment of pre-defined targets (components): relative total shareholder return (RTSR); return on capital employed (ROCE); degree of employee satisfaction; score in the Dow Jones Sustainability Index (DJSI) during the performance term

(3) average HUGO BOSS share price over the last three months of the waiting period.

A detailed explanation of the individual target components can be found in the management report on page 115 et seq.

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 corresponding fiscal years 2019, 2020, 2021 and 2022 respectively.

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. The expected entitlement of the plan participant is the basis for the calculation of a long-term personnel provision recognized on a pro rata basis over the term of the respective plans and re-evaluated on each reporting date. The amount of the entitlement and the provision are evaluated using a Monte Carlo simulation, considering the following components:

(1) expected degree of attainment of individual target components listed above

(2) fair value per share option/performance shares (expected HUGO BOSS share price at the end of the period)

The fair value of the performance shares is calculated by an external expert using an option pricing model.

The fair values for the three plans moved in the following ranges as of December 31, compared to the previous year:

LTI Bonus Plan	Fair values per share option 2019	Fair values per share option 2018
2016–2018	EUR 33.62	between EUR 45.66 and EUR 51.89
2017–2019	between EUR 23.53 and EUR 26.72	between EUR 38.64 and EUR 49.90
2018–2020	between EUR 23.78 and EUR 30.71	between EUR 32.70 and EUR 47.99
2019–2021	between EUR 20.36 and EUR 29.88	–

The fair value measurement for the respective plans is based on the following parameters:

	2019	2018
HUGO BOSS share price at reporting date in EUR	43.26	53.92
Expected dividend return in %	4.00	4.00
Expected volatility in %	30.00	30.00
Risk free interest rate in % (LTI Plan 2016)	(0.73)	(0.70)
Risk free interest rate in % (LTI Plan 2017)	(0.69)	(0.65)
Risk free interest rate in % (LTI Plan 2018)	(0.63)	(0.56)
Risk free interest rate in % (LTI Plan 2019)	(0.58)	–

As of December 31, 2019, the provision recognized in this connection for the four plans totaled EUR 10,471 thousand (2018: EUR 6,972 thousand). Therefore, a total expense for share-based payment pursuant to IFRS 2 of EUR 3,499 thousand (2018: EUR 3,081 thousand) was recognized in personnel expenses in fiscal year 2019.

19 | 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 and Switzerland. 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 Group pays 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 order to simplify the settlement, a former member of the Managing Board was made an offer in 2019 to cancel the previous pension commitment in return for payment of a one-off capital payment in the amount of the actuarial commercial present value. The offer was accepted and the payment will be made in the first quarter of 2020.

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**	
	2019	2018	**2019**	2018	**2019**	2018
Germany	120,089	100,849	98,287	86,129	21,802	14,720
Switzerland	59,687	44,322	38,025	33,099	21,662	11,223
Others[1]	10,920	9,574	0	0	10,920	9,574
Total	**190,696**	**154,745**	**136,312**	**119,228**	**54,384**	**35,517**

[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 the fiscal year 2019, the funding status of benefit obligations pursuant to IAS 19 was as follows:

(in EUR thousand)

	2019	2018
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	154,744	150,834
Currency differences	1,207	196
Service cost	5,398	5,892
Interest expense	3,643	2,865
Payments from settlements	(21)	(48)
Remeasurement of the carrying amount		
Actuarial gains/losses due to changes in financial assumptions	21,748	(4,086)
Actuarial gains/losses due to changes in demographic assumptions	0	(112)
Experience adjustments	3,771	(396)
Benefits paid	(3,704)	(3,479)
Contribution by participants of the plan	3,906	3,291
Past service cost	3	(212)
Present value of benefit obligation on December 31	**190,695**	**154,745**
Changes in plan assets		
Fair value of plan assets on January 1	119,228	110,881
Currency differences	1,294	1,118
Offsetting with plan assets	0	0
Expected return on plan assets	2,277	1,955
Expected return on plan assets (without interest income)	7,457	633
Benefits paid	(2,169)	(2,347)
Contribution by the employer	4,318	3,697
Contribution by participants of the plan	3,906	3,291
Fair value of plan assets on December 31	**136,311**	**119,228**
Funding status of the benefits funded by plan assets	**54,384**	**35,517**

As of December 31, 2019, EUR 117,758 thousand (2018: EUR 98,642 thousand) of the present value of the defined benefit obligation is financed through employer's pension liability insurance and EUR 59,687 thousand (2018: EUR 44,322 thousand) through foundation assets; while the remaining EUR 13,306 thousand (2018: EUR 11,781 thousand) was unfunded.

Actuarial assumptions underlying the calculation of the present value of the pension obligations as of December 31, 2019

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	**2019**	2018
Discount rate		
Germany	1.45%	2.20%
Switzerland	0.10%	1.10%
Future pension increases		
Germany	1.75%	1.75%
Switzerland	0.00%	0.00%
Future salary increases		
Germany	2.50%	2.50%
Switzerland	2.00%	2.00%

Pension benefits in Germany are determined on the basis of biometric principles in accordance with the 2018 G mortality tables of Prof. Dr. Klaus Heubeck. The BVG 2015 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, 2019.

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)

Change in present value of the pension obligations	**2019**	2018
Discount rate		
December 31,		
Increase of 75 basis points	(21,131)	(16,037)
Decline of 75 basis points	25,670	19,666
Future pension increases		
December 31,		
Increase of 25 basis points	5,859	4,590
Decline of 25 basis points	(4,080)	(3,247)
Future salary increases		
December 31,		
Increase of 50 basis points	1,636	1,213
Decline of 50 basis points	(1,542)	(1,168)
Life expectancy		
December 31,		
Increase of 10 percent	6,279	4,452
Decline of 10 percent	(6,166)	(4,444)

Breakdown of the pension expenses in the period

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

(in EUR thousand)

	2019	2018
Current service costs	5,398	5,892
Past service costs	3	(212)
Net interest costs	1,366	910
Recognized pension expenses in the comprehensive statement of income	**6,767**	**6,590**
Expense from plan assets (without interest effects)	(7,457)	(633)
Recognized actuarial (gains)/losses	25,520	(4,594)
Recognized remeasurement of the carrying amount in the comprehensive statement of income	**18,063**	**(5,227)**

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 2019, the Group expects employer contributions to plan assets of EUR 4,198 thousand (2018: EUR 3,841 thousand).

Duration

The duration of the benefit-based plans of the HUGO BOSS Group on December 31, 2019, is 18 years for Germany (2018: 17 years) and 20 years for Switzerland (2018: 19 years).

Defined contribution plans

Employer contributions to contribution-based plans totaled EUR 21,938 thousand in the past fiscal year (2018: EUR 19,292 thousand) and are reported under personnel expenses. The HUGO BOSS Group's main contribution-based plan is in Germany. They receive the contributions to statutory pension insurance and the employer's contribution to employer-funded direct insurance in Germany.

20 | 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)

	2019	**With remaining term up to 1 year**	2018	With remaining term up to 1 year
Financial liabilities due to banks	215,303	110,269	168,725	90,609
Lease liabilities	957,175	167,703	4,750	1,318
Other financial liabilities	2,650	1,745	2,661	1,434
Total	**1,175,128**	**279,717**	**176,136**	**93,361**

Other financial liabilities include negative market values from derivative financial instruments amounting to EUR 2,650 thousand (2018: EUR 2,661 thousand).

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

	2019		2018	
Remaining term	**Weighted average interest rate**	**Carrying amount in EUR thous.**	Weighted average interest rate	Carrying amount in EUR thous.
Liabilities due to banks				
Up to 1 year	0.38%	110,269	0.30%	90,609
1 to 5 years	2.75%	60,186	1.21%	72,394
More than 5 years	3.87%	44,847	3.35%	5,722
Other financial liabilities				
Up to 1 year	1.52%	1,908	2.69%	2,752
1 to 5 years	5.80%	904	4.27%	4,659
More than 5 years	0.00%	0	0.00%	0

The interest-bearing financial liabilities increased as a result of the takeover of a loan as part of acquiring of DZ Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. In contrast, there is a reduced utilization of the syndicated loan. In comparison with the prior year, the share of non-interest-bearing financial liabilities has increased. 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)

2019			**Expected cash flows**		
Non-derivative financial liabilities	**Carrying amount**	**Total cash flows**	**< 1 year**	**1–5 years**	**> 5 years**
Financial liabilities due to banks	215,303	220,260	110,538	63,632	46,090
Lease liabilities	957,175	1,041,297	188,282	584,828	268,187
Derivative financial liabilities					
Undesignated derivatives	2,329	2,329	1,425	904	0
Derivatives subject to hedge accounting	321	321	321	0	0
Other financial liabilities	0	0	0	0	0
Total	**1,175,128**	**1,264,207**	**300,566**	**649,364**	**314,277**
2018					
Non-derivative financial liabilities					
Financial liabilities due to banks	168,725	173,677	103,243	64,520	5,914
Lease liabilities	4,750	5,964	1,473	4,491	0
Derivative financial liabilities					
Undesignated derivatives	1,906	1,906	678	1,228	0
Derivatives subject to hedge accounting	755	755	755	0	0
Other financial liabilities	0	0	0	0	0
Total	**176,136**	**182,302**	**106,149**	**70,239**	**5,914**

21 | Other liabilities

(in EUR thousand)

	2019			2018		
		Thereof current	**Thereof non-current**		Thereof current	Thereof non-current
Other liabilities	130,512	130,022	490	183,762	123,092	60,670
From accruals of rental obligations for the Group's own retail business	5,832	5,731	101	80,189	19,954	60,235
From taxes	57,312	57,312	0	48,557	48,557	0
From social security, accrued vacation, wages and salaries	29,756	29,756	0	28,875	28,875	0

22 | Additional disclosures on financial instruments

Carrying amounts and fair values by category of financial instruments

(in EUR thousand)

		2019		2018	
Assets	**IFRS 9 category**	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	AC	132,626	132,626	146,717	146,717
Trade receivables	AC	216,222	216,222	214,137	214,137
Other financial assets		53,859	53,859	49,281	49,281
Thereof:					
Undesignated derivatives	FVTPL	327	327	560	560
Derivatives subject to hedge accounting	Hedge Accounting	1,501	1,501	0	0
Other financial assets	AC	47,758	47,758	48,721	48,721
Liabilities					
Financial liabilities due to banks	AC	215,303	220,539	168,725	170,547
Trade payables	AC	314,646	314,646	295,106	295,106
Lease liabilities	n.a.	957,175	957,175	4,750	4,750
Other financial liabilities		2,650	2,650	2,661	2,661
Thereof:					
Undesignated derivatives	FVTPL	2,329	2,329	1,906	1,906
Derivatives subject to hedge accounting	Hedge Accounting	321	321	755	755
Other financial liabilities	AC	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, 2019, 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, 2019, as in the prior year, all financial instruments measured at fair value in the category FVTPL and derivatives designated to a hedge relationship were assigned to level 2. During fiscal year 2018, 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. The assets amounted to EUR 1,828 thousand and liabilities to EUR 2,650 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.

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	2019	2018
Derivatives (FVTPL)	0	(518)	0	0	(9,616)	(10,134)	(4,799)
Financial Assets Measured at Amortised Cost (AC)	1,609	0	3,397	(5,766)	0	(760)	(6,792)
Financial Liabilities Measured at Amortised Cost (AC)	(2,853)	0	(204)	0	0	(3,057)	770

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 AC 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.

Changes in liabilities from financial activity

(in EUR thousand)

	Gross Value Jan 1	Cash flows	Acquisition of groups of assets	Changes in portfolio	Change in the maturity	Currency translation effects	**Gross Value Dec 31**
2019							
Short-term liabilities arising from financing activities							
Financial liabilities due to banks	90,609	(107)	11,467	8,293	8,293	7	110,269
Lease liabilities	226,592	(227,394)	(7,968)	142,085	142,085	2,295	167,703
Long-term liabilities arising from financing activities							
Financial liabilities due to banks	78,116	(35,000)	69,750	(8,293)	(8,293)	461	105,034
Lease liabilities	834,638	0	(45,409)	(142,085)	(142,085)	9,300	789,472
Total	**1,229,955**	**(262,501)**	**27,840**	**0**	**0**	**12,063**	**1,172,478**
2018							
Short-term liabilities arising from financing activities							
Financial liabilities due to banks	67,603	25,077	0	0	0	(80)	90,609
Lease liabilities	1,235	77	0	0	0	6	1,318
Long-term liabilities arising from financing activities							
Financial liabilities due to banks	54,725	20,310	0	0	0	1,089	78,115
Lease liabilities	4,558	(1,324)	0	0	0	199	3,433
Total	**128,121**	**44,140**	**0**	**0**	**0**	**1,214**	**173,475**

In the fiscal year 2019, Distributionszentrum Vermietungsgesellschaft mbH & Co Objekt HUGO BOSS Filderstadt KG was acquired. This resulted in an increase in liabilities due to banks since a loan was acquired in the amount of EUR 81,217 thousand. Due to the acquisition of the property, the lease liabilities recognized as of January 1, 2019, were derecognized.

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
2019						
Trade receivables	227,695	(11,473)	216,222	0	0	216,222
Other financial assets	53,859	0	53,859	(35)	0	53,824
Thereof derivatives	1,828	0	1,828	(35)	0	1,793
Total	**281,554**	**(11,473)**	**270,081**	**(35)**	**0**	**270,046**
2018						
Trade receivables	221,510	(7,373)	214,137	0	0	214,137
Other financial assets	49,281	0	49,281	(150)	0	49,131
Thereof derivatives	560	0	560	(150)	0	410
Total	**270,791**	**(7,373)**	**263,418**	**(150)**	**0**	**263,268**

(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
2019						
Trade payables	325,328	(10,682)	314,646	0	0	314,646
Other financial liabilities	2,813	0	2,813	(35)	0	2,778
Thereof derivatives	2,650	0	2,650	(35)	0	2,615
Total	**328,141**	**(10,682)**	**317,459**	**(35)**	**0**	**317,424**
2018						
Trade payables	304,187	(9,081)	295,106	0	0	295,106
Other financial liabilities	7,411	0	7,411	(150)	0	7,261
Thereof derivatives	2,661	0	2,661	(150)	0	2,511
Total	**311,598**	**(9,081)**	**302,517**	**(150)**	**0**	**302,367**

The liabilities of EUR 11,473 thousand (2018: EUR 7,373 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 10,682 thousand (2018: EUR 9,081 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)

	2019		2018	
	Nominal-values	**Fair values**	Nominal-values	Fair values
Assets				
Currency hedging contracts	78,186	1,828	122,839	560
Interest hedging contracts	0	0	0	0
Liabilities				
Currency hedging contracts	(113,470)	(1,333)	(91,048)	(978)
Interest hedging contracts	(7,412)	(1,316)	(8,230)	(1,683)
Total	**(42,696)**	**(821)**	**23,561**	**(2,101)**

The nominal values are the 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 (1,998) thousand (2018: EUR (1,346) thousand) stems from financial assets and liabilities that were classified as held for trading.

The positive effects from the fair value measurement of currency hedges of EUR 1,180 thousand were recognized in other comprehensive income as of December 31, 2019 (2018: EUR (755) thousand). Of the amount recognized in other comprehensive income, gains of EUR 825 thousand on securities falling due were recycled into operating earnings in the fiscal year 2019 (2018: losses of EUR 3,444 thousand).

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.

The Group has production facilities at HUGO BOSS Textile Industry Ltd. in Turkey, among other locations. The euro is used as the functional currency of this subsidiary; however, certain local payments are made in Turkish lira. This results in a transaction risk, both from the local and Group point of view, due to the fluctuating exchange rate between the EUR and the TRY.

The risk management strategy aims at limiting transaction risks and smoothing the income statement. Therefore, future cash flows (including wages, salaries, social security contributions and transport costs) are hedged using forward exchange transactions and then linked with a hedging relationship shown on the balance sheet as cash flow hedges as per IFRS 9 (hedge accounting).

HUGO BOSS uses a mechanistic hedging method for its implementation. Cash flow planning for the following fiscal year is employed on a yearly basis for determining exposures to be hedged. A total of 75% of expected exposures are subsequently hedged using forward exchange transactions based on this planning. These are traded on specific dates, divided into three tranches of approximately 25% each. This makes it possible for the HUGO BOSS Group on one hand to participate in market opportunities while on the other smoothing out hedged rates by the split into two tranches. This also makes it possible to take changed plan assumptions into account.

The currency of the underlying transaction is identical to the currency of the hedging instrument. In addition, only the cross-currency basis spread (CCBS) contained in the hedging instrument was evaluated on the reporting date, and classified as immaterial. As this results in the underlying risk of the currency forward contract being identical to the hedged risk (the exchange rate risk between the EUR and TRY), HUGO BOSS sets a hedging ratio of 1:1 for the hedging relationship indicated above.

The forward exchange contracts are normally concluded in such a way that their due date corresponds with the due date of the expected cash flows. As already noted above, the risk of the hedging instrument also corresponds with the hedged risk. As a result, HUGO BOSS prospectively assumes an economic relationship between the underlying transaction and the hedging instrument. This is reviewed on a regular basis, but no less often than every reporting date.

In principle, differences between planned and actual due dates for cash flows can cause some partial inefficiency. Furthermore, inefficiency may occur in the calculation of the difference in value between the hedging transaction and the underlying transaction, since the currency basis or forward points are not excluded when designating the hedging instruments.

The HUGO BOSS Group holds the following forward exchange contracts for hedging future cash flow as of the reporting date:

	2020				
Maturity	**Jan.–Mar.**	**Apr.–Jun.**	**Jul.–Sept.**	**Oct.–Dec.**	**Total**
Nominal amount in TRY thousand	35,490	37,725	39,638	37,575	150,428
Average hedged rate	7.072	7.359	7.657	7.956	7.519

Based on historical experience, the HUGO BOSS Group anticipates all underlying transactions currently designated as cash flow hedges to accrue as of the reporting date.

Hedging instruments that the Company has designated in hedging relationships have the following impact on the balance sheet as of December 31, 2019:

(in EUR thousand)

	2019	2018
Balance sheet item	Derivatives subject to hedge accounting	Derivatives subject to hedge accounting
Carrying amount assets	1,501	0
Carrying amount liabilities	(321)	(755)
Change in fair value of hedges held as of the reporting date	1,180	(755)
Nominal volume	20,047	12,442

The hedging relationships shown above have the following impact on the income statement or other comprehensive income (OCI):

(in EUR thousand)

	2019	2018
Change in fair value of the underlying transaction	(1,180)	755
Cash flow hedge reserve from existing hedges	1,180	(755)
Cash flow hedge reserve from hedges no longer in existence	0	0
Ineffectiveness recognized in income	0	0
Amount reclassified from OCI due to non occurence of underlying transaction	0	0
Amount reclassified from OCI due to maturity of underlying transaction	825	(3,444)

As of the reporting date, EUR 7,411 thousand (2018: EUR 8,230 thousand) in variable interest financial liabilities without designation were secured as a hedging relationship.

For additional information and a detailed description of other financial risks, refer to the Risk/Reward Report.

Other Notes

23 | Contingent liabilities

There were no contingent liabilities as of 31 December 2019.

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 the segment profit. Since fiscal year 2019, the segment profit has been defined as EBIT and therefore replaces the item EBITDA before special items used by the Group up to and including 2018. For this reason, the prior-year figures presented differ from those reported in the previous year.

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
2019					
Sales	**1,802,843**	**559,755**	**437,750**	**83,708**	**2,884,056**
Segment profit comparable to 2018	**471,810**	**61,494**	**93,980**	**70,062**	**697,346**
In % of sales	26.2	11.0	21.5	83.7	24.2
IFRS 16 effect	4,888	3,064	2,817	0	10,769
Effect IC charges	(20,647)	(4,272)	(2,981)	0	(27,900)
Segment profit	**456,051**	**60,286**	**93,816**	**70,062**	**680,215**
In % of sales	25.3	10.8	21.4	83.7	23.6
Segment assets	274,115	156,470	109,691	23,298	563,574
Capital expenditure	129,508	47,637	82,405	16	259,566
Impairments	(7,009)	(2,469)	(646)	0	(10,124)
Thereof property, plant and equipment	(7,523)	(2,656)	(657)	0	(10,836)
Thereof intangible assets	(1,063)	0	0	0	(1,063)
Thereof write up	1,577	187	11	0	1,775
Depreciation/amortization	(157,720)	(63,555)	(79,932)	0	(301,207)
2018					
Sales	**1,735,810**	**573,967**	**410,003**	**76,183**	**2,795,963**
Segment profit	**492,609**	**68,337**	**81,839**	**63,617**	**706,402**
In % of sales	28.4	11.9	20.0	83.5	25.3
Segment assets	247,717	182,088	94,208	21,945	545,958
Capital expenditure	49,952	15,219	19,099	5	84,275
Impairments	(2,353)	(3,842)	(59)	0	(6,254)
Thereof property, plant and equipment	(3,723)	(4,783)	(848)	0	(9,354)
Thereof intangible assets	829	(235)	0	0	594
Thereof write-up	541	1,176	789	0	2,506
Depreciation/amortization	(44,894)	(18,810)	(17,350)	0	(81,054)

[1] Including Middle East/Africa.

Reconciliation

The reconciliation of segment figures to Group figures is presented below.

Sales

(in EUR thousand)

	2019	2018
Sales – operating segments	**2,884,056**	**2,795,963**
Corporate units	0	0
Consolidation	0	0
Total	**2,884,056**	**2,795,963**

Operating income

(in EUR thousand)

	2019	2018
Segment profit (EBIT) – operating segments	**680,215**	**706,402**
Corporate units	(335,244)	(359,245)
Consolidation	(475)	(348)
Operating income (EBIT) HUGO BOSS Group	**344,496**	**346,809**
Net interest income/expenses	(31,465)	(3,213)
Other financial items	(7,438)	(6,926)
Earnings before taxes HUGO BOSS Group	**305,593**	**336,670**

Segment assets

(in EUR thousand)

	2019	2018
Segment assets – operating segments	**563,574**	**545,958**
Corporate units	279,162	286,126
Consolidation	0	0
Current tax receivables	33,359	38,682
Current financial assets	32,341	31,998
Other current assets	123,200	122,723
Cash and cash equivalents	132,626	146,717
Current assets HUGO BOSS Group	**1,164,262**	**1,172,204**
Non-current assets	1,713,203	686,353
Total assets HUGO BOSS Group	**2,877,465**	**1,858,557**

Capital expenditures

(in EUR thousand)

	2019	2018
Capital expenditure – operating segments	**259,566**	**84,275**
Corporate units	81,446	71,025
Consolidation	0	0
Total	**341,012**	**155,300**

Impairments / Write-ups

(in EUR thousand)

	2019	2018
Impairment – operating segments	**10,124**	**6,254**
Corporate units	0	0
Consolidation	0	0
Total	**10,124**	**6,254**

Depreciation/amortization

(in EUR thousand)

	2019	2018
Depreciation/amortization – operating segments	**301,207**	**81,054**
Corporate units	51,131	42,372
Consolidation	0	0
Total	**352,338**	**123,426**

Geographic information

(in EUR thousand)

	Third party sales		**Non-current assets**	
	2019	2018	**2019**	2018
Germany	412,458	429,379	459,125	237,825
Other European markets	1,474,092	1,382,614	637,316	208,434
U.S.A.	406,223	422,341	217,496	40,800
Other North and Latin American markets	153,531	151,626	54,575	16,763
China	239,294	227,878	42,710	30,557
Other Asian markets	198,458	182,125	186,813	44,575
Total	**2,884,056**	**2,795,963**	**1,598,035**	**578,954**

26 | Related party disclosures

In the reporting period from January 1 to December 31, 2019, the following transactions requiring disclosure were conducted with related parties:

Non-consolidated subsidiaries
There were no transactions with non-consolidated subsidiaries in the fiscal year 2019. In fiscal year 2018, transactions were conducted with the non-consolidated subsidiary HUGO BOSS Florida, Inc. resulting in receivables in the amount of EUR 1,517 thousand as of the reporting date.

Entities under joint control
In the fiscal year 2019, rental payments in the amount of EUR 11,905 thousand (2018: EUR 11,696 thousand) were made to companies under joint management under existing property leases. There were no open receivables or liabilities relating to these business transactions as of December 31, 2019. The leasing agreements include purchase options for the respective property at the expected market value. In addition, there was a lease extension option at market conditions for the agreement with Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG. The non-cancelable remaining term of the leases is seven years for GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D 19 KG. Distributionszentrum Vermietungsgesellschaft mbH & Co. Objekt HUGO BOSS Filderstadt KG was added to the distribution center in the fourth quarter of 2019.

In the fiscal year 2019, HUGO BOSS together with HUGO BOSS AL FUTTAIM UAE TRADING L.L.C., Dubai, U.A.E., which was established together with the AL FUTTAIM Group in Dubai and in which HUGO BOSS Middle East FZ-LLC, Dubai, U.A.E., holds 49% of the shares, generated sales revenue of EUR 40,653 thousand (2018: EUR 29,857 thousand) and receivables amounting to EUR 210 thousand (2018: EUR 316 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 194 to 195.

Compensation for the Managing Board

The total remuneration of the Management Board amounts to TEUR 5,061 (2018: TEUR 6,903). Expenses for current benefits in 2019 totalled EUR 3,352 thousand (2018: EUR 4,881 thousand). A service cost of EUR 1,209 thousand (2018: EUR 1,322 thousand) was incurred for the company pension scheme in 2019. Expenses for share-based compensation in 2019 amounted to EUR 500 thousand (2018: EUR 700 thousand).

The total remuneration of the members of the Management Board in accordance with section 314 (1) no. 6 a) sentences 1 to 4 of the HGB amounted to EUR 4,454 thousand in financial year 2019 (2018: EUR 7,299 thousand). Of this amount, EUR 2,646 thousand was attributable to basic remuneration including fringe benefits (2018: EUR 2,890 thousand). As in the previous year, no special remuneration was granted in the fiscal year (2018: EUR 0 thousand). An amount of EUR 0 thousand (2018: EUR 1,991 thousand) is attributable to the "Short Term Incentive" (STI) agreed for fiscal year 2019; no payment is made due to the current level of target achievement. An amount of EUR 1,811 thousand is attributable to the LTI 2019 – 2021, which results for 28,330 subscription rights granted in 2019.

In 2019, former members of the Managing Board and their surviving dependents received total compensation of EUR 3,962 thousand (2018: EUR 309 thousand). This includes termination-of-employment benefits amounting to EUR 3,513 thousand (2018: EUR 0 thousand).

Pension obligations for former members of the Board of Management and their surviving dependents amount to EUR 51,268 thousand (2018: EUR 47,171 thousand). The corresponding plan assets in the form of employer's liability insurance amount to EUR 35,715 thousand (2018: EUR 35,473 thousand).

Compensation of the Supervisory Board

The Supervisory Board received compensation for its activities in 2018 amounting to EUR 1,464 thousand. For fiscal year 2019, total compensation is expected to come to EUR 1,205 thousand. This figure includes a variable component of EUR 450 thousand (2018: EUR 709 thousand), which is calculated on the basis of the actual 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% (2018: less than 1%) of the shares issued by HUGO BOSS AG.

Members of the Managing Board purchase HUGO BOSS products at reduced prices 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

At the time this report was prepared on February 20, 2020, the business of HUGO BOSS was significantly impaired by the spread of the novel coronavirus and the associated restrictions on public life, first and foremost in mainland China. Since late January, a large proportion of the Company's own retail stores in mainland China, Hong Kong and Macau have been either closed or operating with severely limited opening hours. During the same period, the Company also recorded a noticeable decline in the sales generated from Chinese tourists in other key markets.

Against this backdrop and given the prevailing high levels of uncertainty regarding the ongoing development of this situation at the time of preparing this report, HUGO BOSS anticipates that the economic consequences of the spread of coronavirus are very likely to have a significant impact on the Group's sales and profit development in 2020. According to the Company's assumption, the situation should gradually normalize by the middle of the year. Any negative impacts above and beyond this could cause the actual results in fiscal year 2020 to differ from the projected values.

Between the end of fiscal year 2019 and the release of this report for publication on February 20, 2020, there were no further macroeconomic, socio-political, industry-related or Company-specific changes that the Management expects to have a significant impact on the Group's earnings, net assets or financial position.

28|German Corporate Governance Code

In December 2019, 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)

	2019	2018
Audit services	1,772	1,740
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	479	510
Other assurance services	146	184
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	86	92
Tax advisory services	73	193
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	0	44
Other services	101	26
Thereof Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	0	0
Total	**2,092**	**2,143**

Services provided by group auditors, beyond those related to the financial statement audit, mainly include sales examination, sustainability report confirmation, tax advisory and transfer pricing.

Managing Board

Member of the Managing Board	Responsibility
Mark Langer (Stuttgart, Germany) Chairman of the Managing Board since January 15, 2010 Member of the Managing Board, since May 19, 2016 Chairman of the Managing Board	Corporate Strategy, Corporate Communication, Own Retail, Wholesale, Global Sustainability, Global Production and Sourcing, Supply Chain Management, Business Unit BOSS Menswear
Yves Müller (Hamburg/Metzingen, Germany) since December 1, 2017 Member of the Managing Board	Controlling, Finance & Tax, Investor Relations, Internal Audit, IT, Legal/Compliance, Human Resources, Real Estate Management
Ingo Wilts (Amsterdam, Netherlands) since August 15, 2016 Member of the Managing Board	Product Creation, Global Marketing, Licenses Management, Business Unit BOSS Womenswear, Business Unit HUGO
Bernd Hake (Eningen, Germany) till July 1, 2019 Member of the Managing Board	Own Retail, Wholesale, Global Merchandising

Supervisory Board

Shareholder representatives

Michel Perraudin
(Hergiswil, Switzerland)

Management Consultant
Chairman of the Supervisory Board

Member since/until 2015/2020

Kirsten Kistermann-Christophe
(Oberursel, Germany)

Managing Director Société Générale S.A.,
Frankfurt/Main, Germany

Member since/until 2015/2020

Gaetano Marzotto
(Milan, Italy)

Chairman of the Supervisory Board
Gruppo Santa Margherita S.p.A.,
Fossalta di Portogruaro, Italy

Member since/until 2010/2020

Luca Marzotto
(Venice, Italy)

Chief Executive Officer Zignago Holding S.p.A.,
Fossalta di Portogruaro, Italy

Member since/until 2010/2020

Axel Salzmann
(Großhansdorf, Germany)

Chief Financial Officer Hensoldt Holding GmbH,
Taufkirchen, Germany

Member since/until 2015/2020

Hermann Waldemer
(Blitzingen, Switzerland)

Management Consultant

Member since/until 2015/2020

Employee representatives

Antonio Simina
(Metzingen, Germany)

Tailor/Chairman of the Works Council HUGO BOSS AG,
Metzingen, Germany
Deputy Chairman of the Supervisory Board

Member since/until 1985/2020

Tanja Silvana Grzesch
(Inzigkofen, Germany)

Chairperson and Treasurer of the German Metalworkers´
Union (IG Metall) Reutlingen-Tuebingen,
Reutlingen, Germany

Member since/until 2015/2020

Anita Kessel
(Metzingen, Germany)

Administrative Employee HUGO BOSS AG,
Metzingen, Germany

Member since/until 2015/2020

Fridolin Klumpp
(Caslano, Switzerland)

Business Director BOSS Womenswear
HUGO BOSS AG,
Metzingen, Germany

Member since/until 2015/2020

Sinan Piskin
(Metzingen, Germany)

Administrative Employee/
Deputy Chairman of the Works Council HUGO BOSS AG
Metzingen, Germany

Member since/until 2008/2020

Martin Sambeth
(Tiefenbronn, Germany)

Secretary of the German Metalworkers´ Union
Baden-Wuerttemberg,
Stuttgart, Germany

Member since/until 2016/2020

Additional disclosures on the members of the Supervisory Board and the Managing Board

The members of the Company's Supervisory Board are also members of a supervisor board at the following companies[1]:

Michel Perraudin	ODLO Sports Holding AG (Switzerland)[2]	Huenenberg, Switzerland
Fridolin Klumpp	HUGO BOSS Ticino AG (Switzerland)	Coldrerio, Switzerland
Gaetano Marzotto	Style Capital SGR S.p.A.[2]	Milan, Italy
	TIP PRE-IPO S.p.A.	Milan, Italy
	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
Luca Marzotto	Dimora 01	Milan, Italy
	Forte Forte S.r.l.	Sarcedo, Italy
	Isotex Engineering S.r.l.	Trissino, Italy
	Multitecno S.r.l.	Fossalta di Portogruaro, Italy
	Santex Rimar Group S.r.l.	Trissino, Italy
	Smit S.r.l.	Trissino, Italy
	Solwa S.r.l.	Trissino, Italy
	Sperotto Rimar S.r.l.	Trissino, Italy
	Vetri Speciali S.p.A.	Trento, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
Axel Salzmann	Team Viewer	Goeppingen, Germany

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

Members of the Managing Board

The members of the Managing Board of HUGO BOSS AG did not hold any mandates on supervisory boards or comparable supervisory bodies of companies not belonging to the HUGO BOSS Group during the reporting period. In the reporting period, members of the Managing Board held mandates on supervisory boards or comparable other supervisory bodies of Group companies for the purpose of Group management and monitoring.

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, February 20, 2020

HUGO BOSS AG
The Managing Board

Mark Langer
Yves Müller
Ingo Wilts

ADDITIONAL INFORMATION

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, February 20, 2020

HUGO BOSS AG
The Managing Board

Mark Langer
Yves Müller
Ingo Wilts

INDEPENDENT AUDITOR'S REPORT

To HUGO BOSS AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of HUGO BOSS AG, Metzingen, and its subsidiaries (the Group), which comprise the consolidated income statement for the fiscal year from 1 January to 31 December 2019, the statement of comprehensive income for the fiscal year from 1 January to 31 December 2019, the consolidated statement of financial position as of 31 December 2019, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of HUGO BOSS AG for the fiscal year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the non-financial statement included in the "Non-financial statement" section of the group management report and the statement on corporate governance pursuant to Section 315d HGB ["Handelsgesetzbuch": German Commercial Code] published on the Company's website and referenced in the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2019, and of its financial performance for the fiscal year from 1 January to 31 December 2019, and,

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the group non-financial statement or the group statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the Group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not

provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1) Impairment of the fixed assets assigned to the Group's own retail operations (DOS)

Reasons why the matter was determined to be a key audit matter:
A significant portion of the HUGO BOSS Group's business is conducted via the Group's own retail operations (DOS - directly operated stores). The assets allocated to the DOS make up the bulk of fixed assets of the HUGO BOSS Group and account for approx. 4.7% of total assets. For the purpose of the impairment test, the DOS are defined as independent cash-generating units (CGUs).

The varying development of regional and local sales markets necessitates extensive estimates and assumptions with regard to the valuation model applied, the calculation of indicators for impairment testing (particularly the development of sales and profitability indicators), the calculation of the discount rate as well as the calculation of expected future cash inflows. This applies in particular to specific growth rates used to roll forward the budget of the Company. The impairment testing of the fixed assets assigned to the DOS was a key audit matter due to the judgment exercised.

Auditor's response:
We discussed with the Company's executive directors and assessed the method applied for the calculation of impairments and reversals of impairments. With the support of internal valuation experts and in particular against the backdrop of the changes required by IFRS 16, we examined the discounted cash flow valuation model, particularly its mathematical accuracy, the composition of the carrying amounts of the assets assigned as well as the discount rates used. We verified the Company's inclusion of individual DOS in the impairment testing based on defined indicators (triggering event test) by comparing the actual data and the planning data of profitability indicators of each of the DOS. We verified the individual components used to determine the discount rate with the support of our internal valuation experts by analyzing the peer group, comparing market data with external evidence and examining the mathematical accuracy of the calculation.

For a deliberately selected sample of DOS, we verified the composition of the carrying amounts and of the amortized cost of the assets allocated. We checked on a test basis that the planning assumptions used in the detailed forecasts of each of the DOS are in line with the business plan of the Company approved by the Managing Board and Supervisory Board. We also verified the retail growth rates applied for the remaining useful lives of the DOS and the development of fixed costs used to roll forward the budget by comparing internal and external data. We also analyzed the forecasts of individual DOS with regard to adherence to the budget in the past, discussed this with the Company's executive directors and in some cases obtained evidence substantiating the individual assumptions of the forecasts.

In cases where impairment testing was not based on the useful life but rather on the net realizable value, we compared the calculation of the net realizable value with the valuations of the expert calculations obtained by the Company and the internal calculations made by the Company.

We also examined the completeness of the disclosures in the notes to the consolidated financial statements.

Our audit procedures regarding the assessment of the recoverability of the fixed assets assigned to the DOS by the Company did not lead to any reservations.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the impairment testing of the fixed assets assigned to the DOS can be found on pages 141 et seq. and 160 et seq. of the notes to the consolidated financial statements.

2) Measurement of inventories

Reasons why the matter was determined to be a key audit matter:
HUGO BOSS is active in the high-end segment of the fashion and apparel industry and is confronted with continuously changing customer demand. A rapidly changing market leads to increased inventory risks and uncertainty in the measurement of inventories.

In particular, the calculation of the write-down rates using the Company's IT-supported write-down procedure as well as the calculation of additional manual write-downs, where necessary, which are not taken into account in this write-down procedure, are subject to the estimates made by the executive directors of the Company.

The measurement of inventories was a key audit matter due to the judgment exercised.

Auditor's response:
In our audit, we first examined the procedures established by the Company's executive directors for determining write-downs recognized for slow-moving goods and assessed the effectiveness of the controls implemented in this process.

We verified the suitability of the IT-supported write-down procedure for the assessment of inventory risks resulting from saleability, range and net realizable value. We assessed the system-based implementation of the write-down procedure in IT with the assistance of internal IT experts. If there were any changes in the write-down procedure in the current year, we examined the reasons and their implementation. We compared the computational logic of the model with the accounting and measurement policies used by the Company and mathematically verified it on a test basis. We further assessed the write-down rates used by the Company based on past experience through analytical comparisons with the write-downs applied for each country in prior years.

We discussed additional, manual write-downs with the Company's executive directors, obtained evidence and performed further substantive audit procedures.

Our audit did not lead to any reservations concerning the measurement of inventories of the Company.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the measurement of inventories can be found in the notes to the consolidated financial statements on pages 142 and 165 et seq.

3) Recognition and assessment of deferred tax assets and other tax receivables

Reasons why the matter was determined to be a key audit matter:
Tax issues are highly complex due to country-specific tax regulations and are subject to the exercise of judgment with regard to the enforceability of tax receivables as well as the existence of future taxable income. The recoverability of deferred tax assets from temporary differences and unused tax losses is based on the assessment of usability in the future through future taxable income. The recognition and recoverability of other tax receivables mainly depends on the Company's assessment with respect to the enforceability of the underlying issues.

Auditor's response:
Due to the complexity of the tax calculations taking into account the local tax regulations and legislation, we consulted internal tax experts for the assessment of deferred tax assets and other tax receivables. These internal tax experts supported us in the assessment of the underlying regulations and enforceability of tax receivables.

To assess the recoverability of deferred tax assets resulting from temporary differences as well as from unused tax losses, we examined whether the existing tax forecasts were suitably derived from the business plan of the Company approved by the Managing Board and Supervisory Board. For this purpose, we discussed with the Company the significant assumptions of the tax forecasts for the entities in Germany, the USA, China and Japan, in particular on the future taxable earnings, and assessed the reconciliation items for the business plan of the Company. Furthermore, we confirmed the assumptions of the tax planning of the individual entities based on the taxable income generated in the past.

There were no reservations concerning the recognition and assessment of deferred tax assets and other tax receivables.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the recognition and assessment of deferred tax assets and other tax receivables can be found in the notes to the consolidated financial statements on pages 140 et seq. and 150 et seq.

4) Accounting treatment of rental and lease agreements

Reasons why the matter was determined to be a key audit matter:
The Group concludes rental and lease agreements to a considerable extent for the rental and leasing of directly operated stores, office and warehouse space as well as plots of land. As of 1 January 2019, the new standard on leases (IFRS 16) required that right-of-use assets as well as corresponding lease liabilities be recognized for the first time. As of 31 December 2019, right-of-use assets accounted for approximately 30% of total assets.

Recognition and measurement pose significant risks regarding the complete identification and correct recognition of contracts containing leases. There are also significant estimates and assessments with regard to the discount rate for the calculation of discounted future lease payments.

The accounting treatment of the rental and lease agreements was a key audit matter due to materiality as well as the risks and judgment exercised in their recognition and measurement.

Auditor's response:
We first assessed the accounting policies applied by HUGO BOSS taking into account the various types of rental and lease agreements. We also examined the process established by HUGO BOSS for the complete and appropriate recognition of contracts, the determination of discount rates as well as the calculation of the value of the right-of-use assets capitalized.

To assess the transition effect as of 1 January 2019, we drew a statistical sample and compared the relevant data in the rental and lease agreements with the calculation of the right-of-use assets. In addition, we verified that the Company had appropriately allocated the contracts on a sample basis for the audit of completeness from the total population of the contracts classified by the Company as not relevant for IFRS 16. In addition, with the support of internal valuation experts we verified the discount rates used, comparing market data with external evidence and examining the mathematical accuracy of the calculation.

For leases already recognized on 1 January 2019, we assessed the development of the right-of-use assets and lease liabilities recognized. For new contracts and changes to contracts in 2019, we used a statistical sample to assess the Company's approach to recognizing a lease within the meaning of IFRS 16. Furthermore, we verified the calculation of the value of the right-of-use assets, lease liabilities as well as depreciation and interest expenses.

We also examined the completeness of the disclosures in the notes to the consolidated financial statements.

Our audit procedures have not led to any reservations.

Reference to related disclosures in the consolidated financial statements:
The disclosures by the Company on the accounting treatment of rental and lease agreements can be found in the notes to the consolidated financial statements on pages 133 et seq. and 157 et seq.

Other information
The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. The other information comprises the disclosures contained in section 1 and 5 as well as section 3 of the corporate governance report with the corporate governance declaration, the section "Non-financial statement" contained in the group non-financial statement of the group management report as well as the statement on corporate governance pursuant to Sec. 315d HGB published on the Company's website as part of the group management report and referenced in the management report. We received a version of this other information prior to issuing this independent auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation
We were elected as auditor of the consolidated financial statements by the Annual Shareholders' Meeting on 16 May 2019. We were engaged by the Supervisory Board on 24 July 2019. We have been the group auditor of HUGO BOSS AG without interruption since fiscal year 2012.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Mr. Peter Werling.

Stuttgart, February 20, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werling	Sturm
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]