COMBINED MANAGEMENT REPORT

BUSINESS ACTIVITIES AND GROUP STRUCTURE

- **Positioning in the premium segment of the global apparel market**
- **Strategic focus on increasing the desirability of BOSS and HUGO**
- **Distribution via own retail and wholesale – online and brick-and-mortar**

Business activity

As a **global fashion and lifestyle company** positioned in the premium segment, HUGO BOSS is one of the leaders in offering high-quality women's and men's apparel. The collections of its brands, BOSS and HUGO, offer customers a comprehensive selection of modern tailoring, elegant evening wear, casualwear, shoes and accessories. In addition, license income is generated from products, such as fragrances, eyewear, watches and children's fashion. Sustainably **increasing brand desirability** is at the forefront of all Group activities and the main focus of the Company's strategic framework. In 2020, the Company, based in Metzingen (Germany), employed approximately 13.800 people worldwide. → **Group Strategy**

The Group operates with two brands – **BOSS** and **HUGO** – to approach customers in a clear and consistent manner. Both brands offer their customers an extensive selection of modern outfits in both **menswear** and **womenswear** so that they are perfectly dressed for any occasion. While the two brands clearly differ from each other in terms of their individual attributes, thereby addressing different customers, they both embody the same exacting values in terms of quality, fit and innovation. In addition to regular fashion events, cooperation's with well-known brands and influential personalities are intended to increase the appeal and profile of BOSS and HUGO. In complying with ambitious social and environmental standards as well as sustainably manufactured products, both brands are highly committed to **sustainability**. → **Sustainability**

BOSS HUGO BOSS   HUGO HUGO BOSS

BOSS is targeting a status-oriented **customer** in the upper premium segment who wants to dress in a modern, sophisticated way. The brand is targeting a customer who has the highest standards in terms of quality and fit, thus attaching great importance to an adequate value-for-money proposition as well as a first-class shopping experience, including personal service. In addition to the classic business outfit, BOSS customers also find a wide range of modern and stylish leisure looks.

In contrast to BOSS, the **HUGO** brand is targeting a much more expressive **customer** who considers style to be an important element in expressing their own personality. HUGO is aimed at an open-minded, individual and spontaneous customer in the premium segment who is increasingly purchasing online or on the go, and is inspired by social media. HUGO offers this typically younger segment of customers casualwear and businesswear collections in the contemporary fashion segment characterized by progressive designs.

The four annual **BOSS and HUGO collections**, as well as additional themed capsule collections, are mainly designed and developed at the Group's headquarter in Metzingen (Germany). In addition, the competence center in Coldrerio (Switzerland) is responsible for innovation and development activities for a number of product groups. The development of capsule collections in cooperation with well-known brands and personalities is also becoming increasingly important. **→ Research and Development**

HUGO BOSS produces 17% of its total sourcing volumes at its own facilities. The Company's **own production** occurs at four locations in Europe, with Izmir (Turkey) being by far the largest. 83% of the sourcing volume is produced by external contract suppliers or procured as merchandise. Partner operations are mainly located in Asia and Eastern Europe. **→ Sourcing and Production**

The BOSS and HUGO collections can be purchased in a total of **127 countries**. The Group's distribution activities are divided into **three regions**. With a sales share of 63%, Europe represents by far the largest region, whereas a total of 18% and 16% of Group sales are generated in Asia/Pacific and the Americas. Within the three regions, the **six core markets** – Germany, Great Britain, the United States, China, France and the Benelux countries – contribute a total of around 60% of sales, with the home market of Germany being the strongest contributor. The license business generates 3% of Group sales.
→ Earnings Development, Sales and Earnings Development of the Business Segments

HUGO BOSS distribution channels

	Own retail	Wholesale
Brick-and-mortar	**Freestanding stores** Freestanding stores operated by the Group in prime locations	**Multi-brand points of sale** Category business on selling space with limited own branding
	Shop-in-shops Shops operated by the Group on retail space of partners	**Shop-in-shops** BOSS and HUGO shops operated by partners
	Factory outlets Sale of prior season´s merchandise in specialist stores in high-traffic peripheral zones	**Franchise business** Freestanding BOSS and HUGO stores operated by partners
Online	**Online store hugoboss.com** Digital flahship store with seperate brand evironments for BOSS and HUGO	**Online distribution via partners** Distribution of the brands BOSS and HUGO via specialized online retailers
	Partnerships with online retailers Own distribution on multibrand platforms via the concession model	

The BOSS and HUGO brands are distributed via the own retail and wholesale business, both online and in brick-and-mortar retail. In recent years, the Group's **own retail business** has been gradually expanded to increase proximity to the customer and offer a first-class shopping experience. In 2020, the own retail business accounted for 66% of Group sales (2019: 65%). At the end of the year, the Group was operating 445 **freestanding retail stores** around the world (2019: 431). Complementing the store network, HUGO BOSS operates outlets as well as self-managed shop-in-shops in department stores within the concession model. Through a variety of omnichannel services, the brick-and-mortar retail business is closely linked to the Company's **own online business**. For HUGO BOSS, the further expansion of its online business is of utmost strategic importance. The Company aims to consistently implement the trend towards online shopping and to fully exploit its growth potential in the future. In 2020, the Company made significant progress in expanding its online store hugoboss.com to further markets. Overall, customers at hugoboss.com can now experience the brand worlds of BOSS and HUGO and order products in a total of 47 countries (2019: 15 countries). → **Group Strategy**

The **wholesale channel** contributed 31% to Group sales in the past fiscal year (2019: 32%). The Group's wholesale partners include department stores, specialist retailers and franchise partners. Moreover, cooperation with specialized online retailers is gaining increasing importance. While department stores and specialist retailers sell the BOSS and HUGO products either in monobrand shop-in-shops or in a multibrand setting, franchise partners independently operate freestanding stores, mainly based in smaller markets not addressed by the own retail business. Overall, the wholesale business encompasses around 6,200 points of sale (2019: around 6,300), of which 243 freestanding stores are run by franchise partners. Including its own freestanding retail stores, shop-in-shops and outlets, customers can thus purchase BOSS and HUGO products at around 7,350 sales points of sale globally (2019: around 7,450).
→ **Group Strategy,** → **Earnings Development**

Group structure

All main management functions are based at the Company's headquarter in Metzingen (Germany). HUGO BOSS AG, as the Group's **parent company**, is responsible for managing the Group. As a German stock corporation, it has a dual management and control structure. Thus, the Managing Board has overall responsibility for the management of the Group and the implementation of the strategy. The Managing Board is monitored by the Supervisory Board, which is also on hand to advise the Managing Board. In addition to HUGO BOSS AG, the Group is made up of **63 consolidated subsidiaries** that bear responsibility for their local business activities. This includes 40 subsidiaries that are organized as distribution companies, as well as three production companies. → **Notes to the Consolidated Financial Statements, Basis of Consolidation**

HUGO BOSS is **structured by region**. The Group's operating segments are Europe (including the Middle East and Africa), the Americas and Asia/Pacific as well as the license business.

HUGO BOSS Group structure

<table>
<tr><th></th><th colspan="2">Managing Board</th></tr>
<tr><td rowspan="10">Central departments</td><td>Brand Management</td><td>IT</td></tr>
<tr><td>Controlling/Risk Management</td><td>Legal/Compliance</td></tr>
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<tr><td>Central Europe</td><td>South East Asia/
Pacific</td></tr>
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The functions established in the **central departments** of HUGO BOSS AG cover all significant parts of the value chain, particularly the development, production, sourcing, and distribution of the collections to the respective markets. The centrally developed Group strategy is implemented and executed locally to ensure strict customer focus as well as to enable a timely reaction to market-specific trends. **Individual markets** are combined in hubs, with local management, as from January 1, 2021, reporting directly to the Chief Sales Officer (CSO) of HUGO BOSS AG. This is intended to ensure close alignment with the central functions as well as lean decision-making processes. In addition, certain functions are pooled in hubs and in central departments across markets to make the most effective use of specialist skills and to generate cost benefits.

Key locations/Global market presence

AMERICAS

~1,600
Points of sale

92
Freestanding retail stores

2
Showrooms

11% Employees

USA (New York)
Headquarters Americas

USA (Midway)
Distribution center

EUROPE
(including Middle East and Africa)

~5,200
Points of sale

212
Freestanding retail stores

9
Showrooms

75% Employees

Germany (Metzingen and surrounding area)
Headquarters Group and Europe, development and pattern design, production, distribution center

Switzerland (Coldrerio)
Development and pattern design

Turkey (Izmir)
Production

Italy (Morrovalle and Scandicci)
Development and pattern design, production

Poland (Radom)
Production

ASIA/PACIFIC

~550
Points of sale

141
Freestanding retail stores

1
Showroom

14% Employees

China (Hong Kong)
Headquarters Asia/Pacific

China (Shanghai)
Headquarters China

GROUP STRATEGY

- **Desirability of BOSS and HUGO forms most important factor for long-term success**
- **Digitization, casualization, and sustainability constitute overarching industry trends**
- **Focus on successful execution of strategic priorities to drive future growth**

The **vision** of HUGO BOSS is **to be the most desirable fashion and lifestyle brand** in the premium segment of the global apparel market. The Group is convinced that further elevating the desirability of its two brands, BOSS and HUGO, represents the most important factor for the Company's long-term success. The Group strategy is therefore fully focused on this objective, taking into account changes in the operating environment and in customer expectations.

In recent years, growth in the **premium apparel industry** has been driven by strong increases in casualwear in particular, fueled by the rise of streetwear and athleisure. At the same time, growth in the formalwear segment of the global apparel market has slowed down noticeably in recent years. **Customer behavior and customer expectations** have also changed: consumers are predominately using digital channels to get inspired and discuss current trends as well as the offerings of individual brands. In particular, through social media, customers are increasingly influenced by, and connected more closely with, brands. Customers demand a noticeably faster reflection of current trends in the collections, and their availability at anytime, anywhere – both in brick-and-mortar and online. They also expect that all distribution channels complement each other as seamlessly as possible. In 2020, the **COVID-19 pandemic** has further fueled these overarching industry trends, with consumer behavior increasingly shifting from offline to online, and also the global trend towards a more casual lifestyle having experienced a further strong push. Customer demand for sustainable product offerings has also been growing for quite some time.

Three strategic priorities intended to drive future growth

Group Strategy

Strategic priorities

Create brand heat and product desire	**Exploit global sales opportunities**	**Drive operational excellence**
Emotionalize the brands	Leverage the online business	Optimize sourcing
Push casualization	Exploit growth potential in China	Drive digitization

Guiding principles

Putting the **customer** at the center of all business activities

Following ambitious **sustainability** principles

Leading in **digitalization**

Leveraging and developing **teams and talents**

In order to account for the changes in customer behavior and customer expectations, HUGO BOSS is focusing on **three strategic priorities**. The consistent implementation of all three strategic priorities is intended to enable the Company to return to its former growth trajectory as soon as possible: driving brand heat and product desire for its two brands BOSS and HUGO, resolutely exploiting global sales opportunities both online and offline, and further driving its operational excellence by increasing efficiency along the entire value chain.

The framework for these priorities is being provided by **four guiding principles**: putting the customer at the center of all business activities, following ambitious sustainability principles, leveraging opportunities within innovative digital solutions, as well as further developing the Company's teams and talents.

Create brand heat and product desire
From a **brand perspective**, the Group's key objective is to drive brand heat and elevate the desirability of BOSS and HUGO in the long run. Emotionalizing both brands via a redefined marketing mix and fully exploiting the global trend towards a more casual lifestyle constitute key elements in this regard.

"Emotionalizing the Brands"
In order to amplify brand awareness and strengthen the profile of BOSS and HUGO particularly among younger target groups, going forward, the brands' marketing initiatives will focus on three pillars: firstly, **highlight events** with the primary goal to emotionalize the brands while having the maximum impact on the consumer globally. Secondly, **strong partnerships** with influential personalities and key opinion leaders, and thirdly, **exclusive collaborations** with globally renowned and appealing brands and businesses. In doing so, the Company's various communication initiatives will be centered on social media, and put strong emphasis on emotional storytelling aimed at further enhancing customers' identification with the two brands.

Emotional fashion events **celebrating BOSS and HUGO on a global scale** are intended to maximize brand awareness, reach and impact. Curated for the respective target audience, those events will take place in renowned fashion metropolises, while at the same time being celebrated globally via livestreams and simultaneous digital events on relevant social media and on hugoboss.com. A prime example in this regard is the **BOSS fashion event** that took place last year at Milan Fashion Week. Over there, BOSS revealed its Spring/Summer 2021 Menswear and Womenswear collections, livestreamed on hugoboss.com, Instagram, and for the first time on TikTok. A **brand experience event** took place simultaneously in Shanghai across Chinese digital platforms WeChat and T-Mall. The event concluded with the reveal of an exclusive collection of the 2020 holiday campaign "BOSS x Justin Teodoro", which was offered to Chinese customers during a 48 hours "see now buy now" shopping experience.

HUGO BOSS is also making great strides in strengthening and expanding its **roster of brand ambassadors**. Influential personalities and key opinion leaders will continue to accompany extensive marketing campaigns and exclusive collections for both brands in future, thereby increasing brand awareness and creating excitement on a global scale. In January 2021, HUGO BOSS has announced Hollywood actor **Chris Hemsworth** to become the first global brand ambassador for BOSS Menswear. In this role, the 37-year-old Australian will be the international face of worldwide fashion campaigns planned for 2021 and 2022. Already in September 2020, BOSS teamed up with German fashion influencer **Caro Daur** on an exclusive womenswear capsule. The "BOSS curated by Caro Daur" collection represented a fresh and modern interpretation of BOSS that resonated greatly with the brand's female customers. Finally, HUGO launched its third casualwear capsule co-created by the brand's global ambassador British singer **Liam Payne** in November 2020, thus – once again – strongly supporting HUGO's positioning in the important contemporary fashion segment. All three partnerships are intended to drive brand heat and customer engagement, in particular among younger customer groups on social media. → **Research and Development, Cooperations and Collaborations**

Rounding off the Group's evolved marketing approach, HUGO BOSS will continue to focus on exclusive collaborations with highly regarded **brands and businesses**. Most recently, BOSS has teamed up with the iconic American sportswear brand **Russell Athletic**. The first joint capsule collection of both brands is to be revealed in March 2021, with a clear focus on streetstyle and athleisure wear. Accompanied by a campaign produced by publisher and creative agency **Highsnobiety**, the collaboration represents a huge opportunity to strengthen the BOSS casualwear business on a global level, but particularly in the important U.S. market. The latter is also expected to benefit from the brand's recently announced partnership with the **National Basketball Association (NBA)**, which is about to kick off with two limited collections in 2021. These collections will feature several jersey items, each co-branded with the NBA logo and the emblem of one of the league's teams. As the campaign's global face, the Golden State Warriors' three-time NBA champion Draymond Green will further increase the appeal of BOSS Casualwear. Finally, BOSS and German automaker **Porsche** have been collaborating closely since 2019. In addition to their regional roots, both companies are united by their high standards of innovation and perfect design. The collaboration includes the development of joint capsule collections inspired by the clear lines of Porsche's sports cars, as well as BOSS being the official outfitter of the Porsche Formula E motorsport team.

"Pushing Casualization"

Given the strong global positioning of BOSS in the upper premium apparel market, and HUGO's successful establishment in premium contemporary fashion, both brands offer a wide range of modern outfits. That includes self-confident business fashion, sophisticated casual looks, and functional athleisure outfits. Over the last years, both brands have experienced comparably higher growth rates in casualwear as compared to formalwear, first and foremost reflecting the **global trend towards a more casual lifestyle**. Already today, the Company's casualwear business accounts for more than 50% of Group revenues. This share should rise further in the coming years, as the casualization trend is expected to continue. → **Earnings Development, Sales by Brand**

Further pushing the casualization of its business model – across brand, gender, and wearing occasion – will therefore remain a top priority for HUGO BOSS in the years ahead, as the Company is committed to **exploiting the full potential of casualwear** by leading the trend towards a more casual lifestyle. Besides offering a wide range of casualwear styles – from polo shirts, hoodies, and jeans, to knitwear, sweatshirts, and sneakers – further expanding in this segment will also include continuing with breaking up the boundaries between casualwear and formalwear. Merging both wearing occasions will allow HUGO BOSS to **seamlessly bridge the gap between tailoring and sportswear**. On the other hand, this will allow the Company to simultaneously strengthen its important formalwear business. With tailoring being the Company's DNA and heritage, its modern interpretation and further casualization offers huge potential for allowing HUGO BOSS to continue setting the tone in the upper premium formalwear market.

Already today, the greater interplay of modern tailoring with casualwear elements is becoming increasingly visible in the **BOSS collections**. The brand puts strong emphasis on modern concepts and offerings including flexible suit combinations of its **"Mix & Match" range**, as well as the integration of innovative materials and performance elements, such as in the case of the **"Stretch Tailoring" program**. Another important concept within casual tailoring is the **"Bomber Suit"** which was introduced last year as part of the brand's **"Broken Suit"** offering. Each component of a Broken Suit has a standalone appeal and can easily be worn as a single item, but at the same time also by combining the two styles as a suit. While the Broken Suit comes in many different variations and fabrics, the Bomber Suit distinguishes itself by its trend-driven spin of the crew-neck bomber jacket, thus fusing formal- and casualwear elements into one highly modern outfit, intended to perfectly dress the BOSS man for both formal and rather casual occasions. Also at **HUGO**, a mix of modern tailoring and **strong casual influences** delivers unconventional looks for trendsetters and individualists, which includes smart office outfits as well as cool casualwear. → **Research and Development**

At the same time, both brands have made significant progress in recent years on their journey towards greater **sustainability**. From a product perspective, in 2020, the commitment to sustainability became more visible than ever before with various sustainable product launches, including the successful expansion of the **"Traceable Wool" collection** for both menswear and womenswear. The collection is aimed at ensuring seamless traceability for customers along the entire supply chain – from sourcing of the wool from ZQ-certified farms in New Zealand through to the manufacturing at the Group's own site in Turkey, which is meeting high quality and labor standards. The year 2020 also saw the unveiling of the first **vegan BOSS suit**. Being manufactured at the Company's headquarters in Metzingen, Germany, the suit uses organic linen cultivated in Europe. While a premium suit traditionally contains animal materials such as wool or horsehair, for the vegan suit, these have all been replaced with vegan alternatives. Also going forward, HUGO BOSS will put a particularly strong focus on sustainability aspects, in order to meet elevated customer expectations while, at the same time, creating added value for the environment and society. → **Sustainability**

Exploit global sales opportunities

To drive growth across all sales channels, HUGO BOSS aims to fully utilizing its omnichannel capabilities developed over the past years by connecting all customer touchpoints into a seamless, consistent customer experience. The further digitization of these touchpoints will be a key success factor to excite customers around the world and to significantly elevate the shopping experience. In doing so, HUGO BOSS aims to resolutely **exploit all sales opportunities** in the years to come. Continuing the success story of its online business and fully leveraging the Group's potential in mainland China are of particular importance for HUGO BOSS in this regard.

"Leveraging the Online Business"

The further **expansion of its own online business** is of strategic importance for HUGO BOSS and one of the Group's key growth drivers. Investments in this channel have been significantly stepped up over recent years, thus successfully laying the foundation for future growth. By 2022, HUGO BOSS aims to generate online sales of more than EUR 400 million annually (2020: EUR 221 million). To achieve this target, the Group is leveraging the full potential of its online store hugoboss.com while, at the same time, continuing to expand its concession business.

HUGO BOSS intends to fully utilize the potential of its **online store hugoboss.com** and develop it into a digital flagship store, ensuring a superior brand and shopping experience. In this context, the Group is continuously optimizing its website, both with a view to its comprehensive and exclusive product offering, as well as its user-friendliness for all mobile and stationary devices. To accelerate the global rollout of its digital flagship, in 2020, HUGO BOSS not only focused its internal resources on the further expansion to markets such as Canada and Mexico, but also sealed a strategic partnership with Global-e, a leading provider of comprehensive cross-border e-commerce solutions.

The **cooperation with Global-e** enabled HUGO BOSS to step into another 30 markets, such as Australia, Japan, Portugal, and Poland, thereby ensuring a state-of-the-art shopping experience in those markets. While customers benefit from a seamless, localized online experience, HUGO BOSS maintains sole management of its online store hugoboss.com. All merchandise is delivered from the Group's central online warehouse in Germany, guaranteeing the brand's hallmark standards of brand presentation and customer service. Consequently, as of today, hugoboss.com is present in a total of **47 international markets**. Further rollouts are scheduled for 2021, as the Group's ambition remains to have hugoboss.com available in almost each and every country around the globe. In addition, the Group intends to further drive the **commercial use of social media**, where the first successes have been recorded already in the past years. On Instagram, for example, both brands' fans and followers are already able to explore and buy a broad variety of featured products. Also in this context, BOSS stores in mainland China have successfully implemented "WeChat Work" in 2020, thereby enabling store personnel additional cross-selling opportunities by connecting more frequently with the brand's customers.

HUGO BOSS has also increased its direct outreach to customers via multibrand websites of strategic online partners. In recent years, numerous partnerships have been cemented by growing the **online concession model**. In doing so, HUGO BOSS exercises full control over the way its collections are presented and sold in a multibrand environment, while also ensuring a consistent and stringent pricing strategy. After having converted the BOSS business on Zalando back in 2019, 2020 saw further conversion of various online partners into the concession model. Overall, at the end of 2020, HUGO BOSS was operating with around **40 international partners** under its online concession model. In the coming years, Europe and Asia/Pacific will continue to form the focus for its further strengthening.

"Exploiting Growth Potential in China"
HUGO BOSS is convinced about its **significant growth potential in mainland China**. With 10% of Group sales generated in mainland China in 2020 (2019: 7%), In terms of distribution of sales, and relative to its competitors, HUGO BOSS remains significantly under-penetrated in this strategically important market. At the same time, both brands are enjoying strong momentum over there. Therefore, exploiting sales opportunities in mainland China remains a key priority for HUGO BOSS, as its importance is expected to continue to rise in the years to come, supported by a growing middleclass and a structural repatriation of local demand. With around 150 retail points of sale in mainland China as of December 31, 2020, the Company has a very solid foundation in that market already today, which ensures customer proximity as well as full control over distribution and pricing. Furthermore, the brands' German heritage as well as the Company's expertise in tailoring resonate particularly well with the Chinese consumer. Consequently, based on the Company's strong positioning in mainland China and healthy underlying demand, HUGO BOSS is confident to realize **strong double-digit growth** in this market also in the future.

HUGO BOSS expects ongoing strong momentum and robust underlying like-for-like growth both in brick-and-mortar retail as well as in its online business, supported by the Company's ongoing focus on **executing regional events** with the **support of local brand ambassadors**. This type of combination enables HUGO BOSS to accelerate its engagement with the local consumer, while, at the same time, driving traffic and conversion in store and online. Prime examples for these types of events are "Qixi" – or Chinese Valentine's Day –, Chinese Golden Week, and Singles' Day.

Besides continuously striving for further productivity increases in its brick-and-mortar retail business in mainland China, HUGO BOSS also sees the potential for further **retail space expansion** in that market, in order to meet an increasing repatriated local demand also in tier-2 and tier-3 cities. This also includes expanding the Group's travel retail business by adding further stores at China's most frequented airport locations. The Company intends to also upsize some of its existing stores, in particular when it comes to metropolises like Shanghai. Altogether, this should enable HUGO BOSS to increase space in mainland China by more than 10% per annum in the years ahead. In addition to its brick-and-mortar retail footprint, HUGO BOSS will also continue to max out all **online opportunities** in China. This includes further driving the Group's online concession business on relevant local multibrand platforms such as Tmall and JD.com, but also exploiting the potential of social commerce as well as respective cross-channel sales opportunities in store, enabled by social media and payment apps such as WeChat.

Drive operational excellence

From an **operational perspective**, HUGO BOSS constantly aims to develop and implement best-in-class solutions to ensure efficiency and flexibility along its entire value chain. This includes, above all, further optimizing the Company's sourcing structure, as well as harnessing the potential of digitizing key operational processes.

"Optimizing Sourcing without Compromising on Quality"

HUGO BOSS puts a strong emphasis on increasing its efficiency in sourcing, without compromising on product quality. The further optimization of key operational processes is intended to realize cost savings throughout the Company's sourcing activities in the coming years. Further **reducing the complexity of the BOSS and HUGO collections** plays an important role in this regard, as it will allow HUGO BOSS to increase its average sourcing volume by style. HUGO BOSS also aims to further **consolidate its selection of utilized fabrics and trimmings**, while, at the same time, extending respective life cycles of certain materials, for example by expanding the share of never-out-of-stock items in both brands' collections. Both measures are intended to ultimately enable a reduction in the average cost per unit while also ensuring an improved value proposition.

At the same time, HUGO BOSS continues to focus on **strengthening its portfolio of strategically important vendors** for finished goods and raw materials. During the last years, the Group has already reduced the total number of its suppliers while simultaneously expanding its business relationship with key suppliers, in particular in the area of casualwear. Finally, HUGO BOSS is making great strides in **implementing a lean and flexible operations organization**. Building scale functions in sourcing and material management, streamlining key activities such as in planning, buying, and disposition, as well as driving knowledge transfer between different product divisions – particularly aiming at strengthening the teams' digital skills – all form key priorities in this regard. → **Sourcing and Production**

"Driving Digitization along the Entire Value Chain"

Digitizing its business model offers HUGO BOSS various opportunities for sustainably **increasing customer value** and **for improving efficiency and flexibility**. While building on its strong IT and logistics capabilities, the potential for digitizing its business model is to be harnessed along the entire value chain.

In this context, HUGO BOSS is **increasingly developing its products digitally**, thereby shortening development times, in particular through the use of digital prototypes. This will allow the Company to react faster to market trends, thereby being even closer to true customer demand. The high degree of detail provided by 3D virtualization permits a realistic depiction of colors and contours. The year 2020 saw the first BOSS collection with contemporary casual and jersey styles developed digitally from start to finish within only eight weeks. At HUGO, parts of the collection development have been fully digitized already in prior years. HUGO BOSS has set itself the goal of developing at least 80% of its collections fully digitally by the end of 2022 (2020: around 50%). In combination with the increased use of AI for **digital trend detection** as well as the successful implementation of a **digital fabrics and trimmings database** in recent years, HUGO BOSS expects to further shorten the collection development phase in the future. → **Research and Development**

In sales and distribution, the use of digital elements is becoming increasingly important in the Group's brick-and-mortar stores. In particular, the integration of **omnichannel services** such as "Click & Collect" and "Order from Store" is designed to offer customers an elevated shopping experience. In order to enhance the in-store experience even further, the Group is seamlessly integrating large **touchscreens** to have the full range of BOSS and HUGO products available for order while arranging for convenient in-store pick-up or home delivery. Already today, the Group is making use of **digital sales tools** when distributing its collections to wholesale partners. A digital showroom and a digital lookbook offer trading partners a flexible, convenient, and fast alternative to conventional ordering, covering aspects such as the inspiration for the collection, the selection of individual products, and the completion of the ordering process. In the medium term, both brands will be distributed to wholesale partners by means of digital showrooms.

Medium-term increase in profitability

While the financial implications of the COVID-19 pandemic weigh on the Group's profitability in the short term, HUGO BOSS is confident it will substantially increase its operating profit (EBIT) in the medium term. As a result, the Group has set itself the target of not only returning to its former growth trajectory as soon as possible, but also of improving the **EBIT margin** significantly in the years ahead. An improved gross profit as well as a strong focus on a more efficient use of operational expenses, in particular in the area of selling and distribution expenses, should contribute to this development. The latter includes further improving the profitability of the Group's own retail business, as well as continuing to optimize the organizational structure of HUGO BOSS.

Ambition to resume attractive dividend policy

As the negative effects of the pandemic have led to a significant decline in sales, profitability, and cash flow in fiscal year 2020, HUGO BOSS has suspended its dividend payment for the 2019 fiscal year, except for the **legal minimum dividend** of EUR 0.04 per share. In light of the very challenging nature of fiscal year 2020 as well as the persisting high uncertainty with regard to the further development of the pandemic, the Managing Board and Supervisory Board of HUGO BOSS intend to propose to the Annual Shareholders' Meeting to only pay the legal minimum dividend of EUR 0.04 per share also for fiscal year 2020. In doing so, the Company aims at further strengthening its internal financing capability. Nevertheless, HUGO BOSS remains confident that it will continue to generate significantly positive free cash flow in the future on the basis of a general recovery of its business and due to its highly free cash flow generating business model. This, in turn, should enable the Group to return to its former **attractive dividend policy**.

HUGO BOSS intends to host an **Investor Day** in the second half of 2021. In this context, the Group will outline its strategic ambition in detail.

GROUP MANAGEMENT

- **Sustainable increase in enterprise value as the guiding principle of HUGO BOSS**
- **Sales and EBIT the most important key performance indicators for maximizing free cash flow over the long term**
- **Group planning, reporting and investment controlling form core elements of Group management**

Key performance indicators

HUGO BOSS aims at **sustainably increasing the enterprise value**. The Group's internal management system is intended to support the Managing Board and the managers of the respective business units in focusing all business processes on this objective. In order to increase its enterprise value, the Group focuses on **maximizing free cash flow over the long term**. Consistently generating positive free cash flow is expected to safeguard the independence and liquidity of HUGO BOSS at all times.

Definition Free cash flow

	Cash flow from operating activities
+	Cash flow from investing activities
=	**Free cash flow**

Increasing **sales** and **operating result (EBIT)** is instrumental for improving free cash flow. In addition, strict management of **trade net working capital** and a value-oriented **capital expenditure** approach support the development of free cash flow. HUGO BOSS has therefore identified a total of four key performance indicators for increasing free cash flow: sales, EBIT, trade net working capital and capital expenditure.

Four key performance indicators

In 2020, the negative implications of the COVID-19 pandemic led to a significant decline in sales, EBIT and free cash flow. In order to return to growth as quickly as possible, HUGO BOSS is focusing on the consistent implementation of three **strategic priorities**: increasing the desirability of its two brands, BOSS and HUGO, consistently exploiting global growth opportunities, and ensuring efficiency and maximum flexibility of its operational processes. → **Group Strategy**

HUGO BOSS aims at sustainably increasing its profitability and therefore attaches particular importance to **profitable sales growth**. All initiatives aimed at increasing sales will therefore also be measured by their potential to generate a sustainable increase in EBIT and EBIT margin (ratio of EBIT to sales).

Definition EBIT

	Earnings before taxes
–	Financial result
=	**Operating result (EBIT)**

In order to **increase the EBIT margin** in the medium term, the Company is focusing on sustainably improving the gross profit and on making more efficient use of operating expenses, especially in the area of selling and distribution expenses. The main objective of the latter is to improve the profitability of the Group's own retail business and further optimize the organizational structure.

For HUGO BOSS, **trade net working capital** is the most important performance indicator for managing the efficient deployment of capital.

Definition Trade net working capital

	Inventories
+	Trade receivables
–	Trade payables
=	**Trade net working capital**

Management of **inventories** as well as **trade receivables** is the main responsibility of the Group's subsidiaries and the respective operating central departments. The latter are also responsible for managing **trade payables**. These three balance sheet items are primarily managed by reference to the days of inventories outstanding, days of sales outstanding and days of payables outstanding. Besides this, there is a specific approval process for the purchase of inventories for the Group's own retail business in order to optimize inventories. This process takes into account sales quotas as well as expected sales growth and markdown levels.

The management of HUGO BOSS is jointly responsible for profitable growth. As a result, the **short-term incentive program (STI)** of managers at all four management levels is linked to the achievement of sales- and EBIT-targets. The ratio of trade net working capital to sales is the third component of the STI program. The compensation scheme for management at the two levels below the Managing Board also includes a **long-term incentive program (LTI)** whose design matches that for the Managing Board. → **Compensation Report, Performance-related (Variable) Compensation Components**

Investment activity is mainly focused on the renovation and modernization of existing retail locations, selective openings of new own retail stores and the expansion of the IT infrastructure as part of the further digitization of the business model. A specific approval process exists for material investment projects. Apart from qualitative analyses, e.g., with respect to potential store locations, this also includes an analysis of each project's present capital value. → **Financial Position, Capital Expenditure**

Against the backdrop of the negative implications of the pandemic on sales, EBIT and free cash flow, HUGO BOSS suspended its dividend payment for fiscal year 2019, with the exception of the **legal minimum dividend** of EUR 0.04 per share. In light of the very challenging nature of fiscal year 2020 as well as the persisting high uncertainty with regard to the further development of the pandemic, the Managing Board and Supervisory Board of HUGO BOSS intend to propose to the Annual Shareholders' Meeting to only pay the legal minimum dividend of EUR 0.04 per share also for fiscal year 2020. In doing so, the Company aims at further strengthening its internal financing capability. Nevertheless, HUGO BOSS remains confident that it will continue to generate significantly positive free cash flow in the future on the basis of a general recovery of its business and due to its highly free cash flow generating business model. This, in turn, should enable the Group to return to its **profit-based dividend policy** which aims to allow the shareholders to participate appropriately in the Group's earnings development. The free cash flow generated by HUGO BOSS is therefore intended to be primarily used to fund the dividend distribution in the years to come. Any liquidity available over and above this is used to further decrease financial liabilities or is retained as a cash reserve. The Group analyzes its balance sheet structure at least once a year to determine its efficiency and ability to support future growth, and to simultaneously provide sufficient security in the event that economic performance falls short of expectations. → **Financial Position, Capital Structure and Financing**

Core elements of the Group's internal management system

The Group's planning, management and monitoring activities focus on optimizing the key performance indicators described above. The **core elements of the Group's internal management system** are Group planning, Group-wide, IT-enabled financial reporting and investment controlling.

Group planning at HUGO BOSS generally refers to a rolling three-year period and is prepared as part of the annual, Group-wide budget process, taking into account the current business situation and the medium-term goals of HUGO BOSS. Based on targets set by the Managing Board, the Group subsidiaries prepare comprehensive earnings and investment budgets for their respective markets or divisions. A similar planning model is used for trade net working capital. Building on this, the development and sourcing units derive mid-term capacity planning. Thereupon, Group controlling checks all of these plans for plausibility and aggregates them to form the overall Group planning. The latter is updated at regular intervals taking into account the actual business performance as well as any opportunities and risks.

Additionally, HUGO BOSS regularly conducts **liquidity** assessments, based on the expected development of future cash flows. The aim is to identify financial risks at an early stage and to take appropriate measures concerning financing and investment requirements. → **Financial Position**

On a monthly basis, the Managing Board and management of Group subsidiaries are informed about the development of business operations through standardized, IT-enabled reports, which are supplemented by ad hoc analyses. Actual data compiled by the **Group-wide, IT-based reporting system** is compared against budget data each month. Accordingly, any deviations are explained and planned countermeasures are presented. Developments with a significant impact on the Group's net assets, financial position and results of operations are reported to the Managing Board without delay.

The Company is particularly focused on **monitoring early indicators** suitable for obtaining an indication of future business performance. In this context, sales development in the Group's own retail business, wholesale order intake and the performance of the replenishment business are analyzed at least on a weekly basis. In addition, at regular intervals, the Company is benchmarking itself against relevant competitors. The continuous monitoring of early indicators is intended to enable the Group to identify possible deviations from its budget at an early stage and take appropriate countermeasures.

The Group **investment controlling** appraises planned investment projects in terms of their contribution to the Company's overall profitability targets. This ensures that projects are only launched in case of an expected positive contribution to enhancing the Group's economic profile. Subsequent analyses are also conducted at regular intervals to verify the profitability of projects that have already been realized. Appropriate countermeasures are taken in the event of any negative deviations from the profitability targets originally set.

In 2020, due to the high degree of uncertainty related to the **COVID-19 pandemic** and its impact on the business of HUGO BOSS, a very close dialogue took place between the Managing Board, Group controlling as well as the management of the central departments and the Group subsidiaries. In light of the dynamic evolution of the pandemic, corporate planning was regularly reviewed and updated during the course of the year. In this context, various developments of the pandemic and their potential effects on the Group's key performance indicators were simulated with the help of scenario analyses.

HUGO BOSS has put particular emphasis on cash flow development in 2020. In this context, at an early stage of the pandemic, the Company has initiated **comprehensive measures** with a total volume of at least EUR 600 million **aimed at securing cash flow**, and successfully executed these measures over the course of 2020. In particular, the Company significantly reduced its operating expenses, postponed non-business-critical investments, significantly reduced the merchandise inflow and suspended the dividend payment for fiscal year 2019, with the exception of the legal minimum dividend of EUR 0.04 per share. As a result, HUGO BOSS has successfully maintained its financial stability and flexibility at all times during the pandemic. **→ Comparison of Actual and Forecast Business Performance, → Financial Position, Statement of Cash Flows and Free Cash Flow**

EMPLOYEES

- **Almost 13,800 employees work for HUGO BOSS**
- **HR management focuses on employee recruitment and employee retention**
- **Mobile working significantly expanded under “Threedom of work”**

HUGO BOSS firmly believes that its employees are key to its success and to the realization of its corporate vision – “to be the most desirable fashion and lifestyle brand in the premium segment”. Key responsibility of the Company’s **HR management** therefore is to acquire the best employees in the industry, promote their personal development and ultimately retain them in the Company in the long-run. The principle of supporting the Company’s teams and talents to fully exploit their potential is firmly anchored in the Group strategy. In addition, the five corporate values – quality, passion, respect, cooperation and innovation – form the **principles underlying daily working relationships**.

As an international company, **diversity** is a key element of the corporate culture at HUGO BOSS. Accordingly, all employees are guaranteed equal opportunities and a non-discriminatory working environment. To take account of the importance of diversity from an organizational perspective, the position of Global Head of Diversity and Inclusion was created in 2020. Starting in the role on April 1, 2021, the selected candidate will report directly to the Director Global Human Resources. In addition, an international task force, consisting of employees from different subsidiaries, was implemented in 2020 in order to promote selected topics at HUGO BOSS, such as inclusion or diversity in management positions. The Company is convinced that the intensification of its activities in the area of diversity will make a positive contribution to employee satisfaction and is also considered to be a relevant factor for potential applicants.

Recruitment

HUGO BOSS aims at further strengthening its positioning as a top employer among relevant target groups. This is intended to enable the Company to continue to win suitable applicants for HUGO BOSS in the future. The Company’s **global recruitment strategy** is increasingly focused on reaching out to qualified candidates directly. In addition, talents are to be acquired through a targeted approach via digital platforms, such as the HUGO BOSS careers website or social media networks. The continuous **further development of digital communication channels** is a key focus when it comes to the Company’s recruitment strategy. A core component of the digital recruitment activities is the global employer branding campaign **“That’s my HUGO BOSS”**, which aims to attract the attention of external talents to the diverse range of activities and personalities at HUGO BOSS. In addition to its digital presence, the Company also regularly presents itself to potential applicants at career fairs.

In order to attract young talents, the Company offers graduates a **variety of vocational training options** and dual study programs. In the past year, there were 75 apprentices and dual program students at HUGO BOSS AG (2019: 76) with 22 new apprentices and students beginning their professional education in 2020 (2019: 25). The professional education offered at HUGO BOSS is tailored to the needs of the Company and is continuously adapted to its strategic priorities. In 2020, HUGO BOSS offered an apprenticeship as a designer of visual marketing for the first time.

HUGO BOSS aims to constantly improve its external reputation and raise its profile among potential applicants. For this reason, the Company operates **active reputation management** on relevant rating platforms and social media networks. Target group-specific, emotional and product-related campaigns are intended to foster enthusiasm for the Company among potential applicants. A wide range of awards attest the success of the HR work at HUGO BOSS and at the same time serve to raise the profile of the Company among potential applicants. In 2020, HUGO BOSS was once again ranked in the **top 100 most attractive employers** in Germany among relevant target groups, according to an annual survey conducted by the Universum and Trendence institutes. In the “Working in Fashion” study conducted by the German industry magazine Textilwirtschaft, HUGO BOSS took third place, retaining its ranking of the prior year. The Company ranked particularly well in the categories of working internationally and salary levels, finishing second place in both categories.

Employee retention

HUGO BOSS determines the satisfaction and needs of its employees as part of an **employee survey** conducted annually in cooperation with Great Place to Work® Germany. The knowledge gained provides the Company with an important impetus for the further development of its HR work and corporate culture. In addition, employee satisfaction at HUGO BOSS is an important component of compensation within the framework of the long-term incentive program (LTI) for the Managing Board and the management at the two levels below the Managing Board. With a Group-wide participation rate of 70%, **overall satisfaction rose** to 72% in 2020 (2019: overall satisfaction of 70% with a participation rate of 66%).
→ **Combined Non-Financial Statement, Employee Matters**

Employee surveys from previous years have shown that **fair compensation** is key for employee satisfaction. HUGO BOSS therefore sees this as an essential aspect of its HR work, and is committed to further enhancing the motivation of its employees, and their loyalty to the Company, through a fair and transparent compensation structure. Based on a regular assessment of all jobs in Germany and Group-wide key positions, all employees are compensated on the basis of job-specific salary bands. The salary bands are based on external salary benchmarks and are intended to increase transparency. HUGO BOSS is currently working on an assessment of all international roles in order to establish a uniform compensation system throughout the Group based on salary bands. HUGO BOSS is convinced that this as a key component to further increase the satisfaction of its employees and, at the same time, its attractiveness as an employer.

The **compensation system** at HUGO BOSS includes fixed and variable salary components, bonuses above the collective bargaining scale, non-cash compensation and other intangible benefits. It complies with industry and collective bargaining agreements and incorporates national and regional benchmarks. There are also works agreements for HUGO BOSS AG that govern compensation components such as the employee performance bonus. In addition to their basic salary, non-tariff employees receive a 13th monthly salary instalment and a short-term incentive, of which half is linked to Group targets and half to the achievement of personal goals. The compensation scheme at the two levels below the Managing Board also includes a long-term incentive (LTI) program that extends over several years and matches the targets of the Managing Board. → **Compensation Report**

HUGO BOSS offers its employees a wide range of options to **best combine work and family life**. Already today, numerous initiatives for flexible ways of working allow a large proportion of employees at the Company’s headquarters in Metzingen to work in an agile and cross-functional environment. Flexible co-working spaces are intended to offer the opportunity for productive work in a creative atmosphere, while at the same time promoting networking between employees. In light of the COVID-19 pandemic and on the basis of a survey of employees at the Metzingen site, HUGO BOSS also introduced the **“Threedom of Work”** hybrid working concept in 2020 which initially applies to all administrative staff in Germany. The concept is looking for three days of attendance at the Company's headquarter in Metzingen from Tuesday to Thursday. On the other two days, employees are free to choose their place of work. HUGO BOSS is one of the first companies in the industry that have made the permanent expansion of mobile working standard. While other Group companies are also working on the development and implementation of hybrid working models, the traditional **concept of working from home** is now available to almost all administrative staff globally. In addition, trust-based working hours and tailored part-time models complement working from home, and are intended to help increase retention and satisfaction at HUGO BOSS. Additionally, HUGO BOSS promotes a good balance between work and family life through numerous family-friendly offers, which are described in more detail in the section entitled "Combined Non-Financial Statement". → **Combined Non-Financial Statement, Employee Matters**

HUGO BOSS also attaches great importance to promoting the **health and performance** of its employees by offering numerous activities aimed at improving the physical and mental wellbeing of its employees. For example, employees in Germany, Switzerland and Turkey can use the Company's own fitness centers free of charge and participate in a wide range of different sports courses. Against the backdrop of the COVID-19 pandemic, the range of sports and coaching offered at the Metzingen site was predominately offered in digital form in 2020. In addition, a balanced nutritional concept in the Company's canteens is intended to improve the personal well-being of its employees. Health measures in the form of movement breaks, massages and back training courses are also available at the central distribution centers in Germany and for production employees in Metzingen.

In addition to vertical promotions, HUGO BOSS also considers horizontal movements of its employees into new departments and functions as an important instrument for promoting talents and retaining employees for as long as possible. In light of the increasing importance of filling vacancies internally, the digital **"HUGO BOSS Spotted" employee referral program** was set up in 2020. To further boost employee motivation, commitment and qualifications, the Group also offers its employees a wide range of in-person and virtual **training and development opportunities**. These are described in detail in the section entitled "Combined Non-Financial Statement". → **Combined Non-Financial Statement, Employee Matters**

To improve employee retention in the long term, HUGO BOSS strives to strengthen the **identification of its employees with the Company** and its objectives. A large number of different communication measures which aim to foster the exchange of ideas both between employees, and between employees and management bodies, are intended to contribute to this. In addition to internal newsletters from the Managing Board and Supervisory Board, as well as regular in-person and virtual townhall meetings, the Company's **"We are HUGO BOSS" employee app** has become an increasingly relevant communication tool during the pandemic. The app enables HUGO BOSS to communicate content on any significant topics – from news about the BOSS and HUGO brands and the global store network to sustainability topics – in real time to employees in 20 countries. The app also offers employees different ways of interacting, thereby strengthening the exchange of ideas and the identification with the Company. In addition, in 2020, the **internal network "connect"**, which had already been launched at the Metzingen site in 2018, was rolled out to all of the Group's administrative staff. Relevant news about the Company, enriched with livestreams and video messages, but also external content, such as industry news, are regularly made available to employees via this channel.

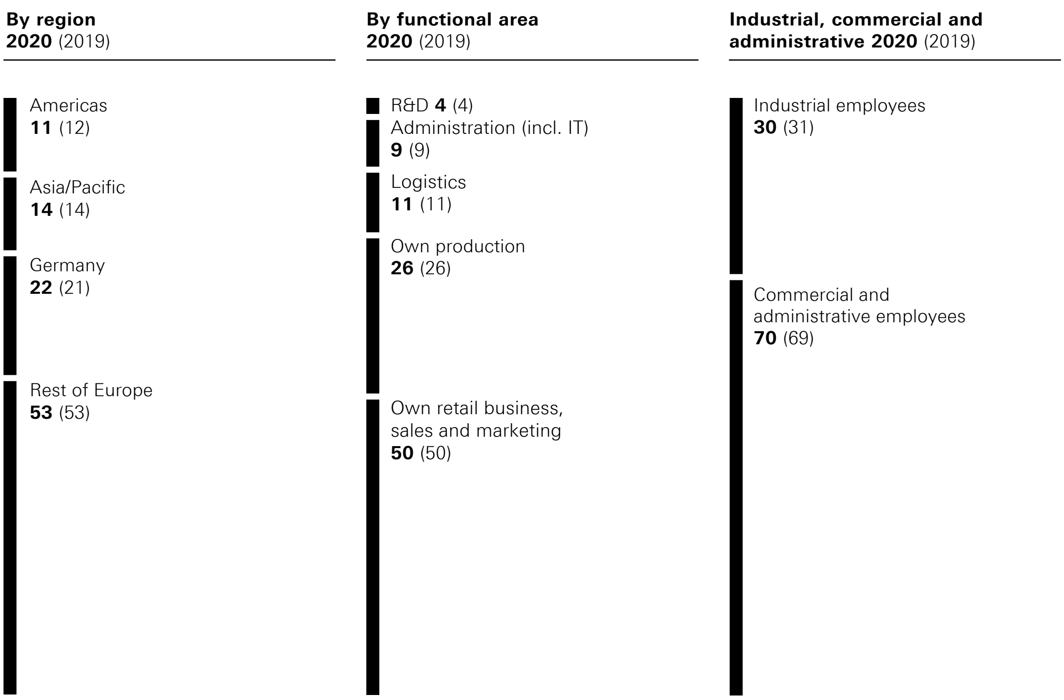
Employee figures

Number of employees[1] as of December 31

[1] Full-time equivalent (FTE)

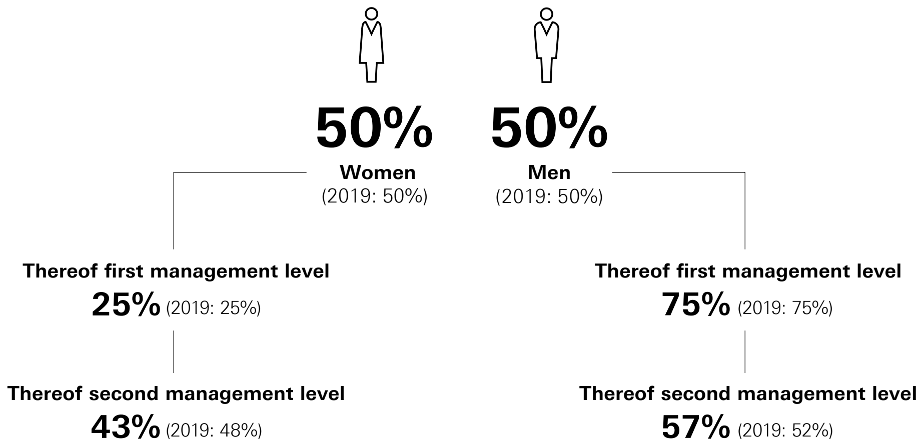
At the end of fiscal year 2020, HUGO BOSS had 13,759 employees. As such, the number of employees was slightly below the prior-year level (2019: 14,633 employees). The average age was 37 years and has thus increased only slightly compared to the prior year (2019: 36 years).

Employees as of December 31 (in %)



The Company's **global positioning** is also reflected in the composition of its workforce. Last fiscal year, a total of 78% of the Group's employees were based outside Germany (2019: 79%). Within Germany, HUGO BOSS employs individuals from 70 different nations. Whereas 9,647 employees (2019: 10,167) worked in the **commercial and administrative sector** at the end of 2020, 4,112 employees (2019: 4,465) were assigned to **industrial activities**.

Employees in management



At 60%, **women** once again accounted for the majority of the Group's workforce (2019: 59%). In **management**, women held 50% of the positions across all four management levels at the end of December 2019 (2019: 50%). The Managing Board has set a target gender quota of at least 30% women in the first management level and 35% in the second management level below the Managing Board to be achieved by December 31, 2021. As of December 31, 2020, the share of women in the first management level was 25%, and thus unchanged versus the prior year level (December 31, 2019: 25%). With a share of women of 43%, the target at the second management level was once again strongly exceeded as at December 31, 2020, (December 31, 2019: 48%). In the context of a re-assessment of all international positions in the past years, HUGO BOSS has realigned the affiliation to management levels in 2020. As a consequence, figures for the years 2019 and 2020 are not directly comparable.
→ **Corporate Governance and the Corporate Governance Statement**

RESEARCH AND DEVELOPMENT

- **Own development centers drive innovation and development work**
- **Cooperations with brands and influencers of strategic importance**
- **BOSS launches its first fully digitally developed casualwear collection**

The overarching goal of **research and development (R&D) at HUGO BOSS** is to develop collections and products that meet the highest customer demands on quality and fit, innovation and sustainability. The maxim of developing the best products in the industry is in line with the fundamental principle of sustainably increasing the desirability of the BOSS and HUGO brands. In this context, the Company is increasingly focusing on partnerships and collaborations with well-known brands, influencers and artists.

Research and development at HUGO BOSS runs in parallel to the product development process, which involves the transformation of a creative idea into a commercial product. The work is carried out at **four development centers** in Metzingen (Germany), Coldrerio (Switzerland), Morrovalle (Italy) and Scandicci (Italy). While the majority of its collections are developed at the Group headquarters in **Metzingen**, the **Coldrerio** competence center is mainly responsible for the development of the product groups shirts, ties and knitwear. In addition, the design and development of shoes, leather accessories and bodywear is developed in Coldrerio. High-quality shoes and leather accessories, in turn, are developed in **Morrovalle** and **Scandicci**.

Product development process

Product development process at HUGO BOSS

The product development process begins with a **creative idea**, taking into account customers' expectations. Collections are themed based on brand strategy, brand values, as well as global mega and fashion trends. The transformation of the creative idea and designs into specific collections also takes into account sell-through rates of previous seasons as well as any other factor that is relevant to individual markets, such as regional purchasing power, climate, fashion preferences and the prevailing market environment. In the conventional development process, the second step sees the design teams' creative ideas tailored in the **pattern design** phase. **Technical product development** then turns the models into prototypes and tests their suitability for the industrial production process. In conventional product development, the prototyping is followed by the **manufacture of a sample collection** in order to ensure that the products meet the Company's high standards in terms of quality and fit. The collections are then sold to wholesale partners and, after production, delivered to either the wholesale partners or to the Group's own retail stores.

The **digitization of the collection development** is of high strategic importance to HUGO BOSS and, as a consequence, driven forward significantly in 2020. In particular, digital workflows allow the Company to operate more flexibly throughout its entire value chain, shorten lead times and thus adapt more effectively and quickly to current consumer trends. Digital product development also offers significant benefits from a sustainability perspective, particularly with respect to the elimination of physical prototypes. With the launch of the pre-fall 2021 season, BOSS will introduce its **first fully digitally developed casualwear collection** for men. With a total of around 100 articles, the collection includes apparel, shoes and accessories. The product development process was purely digital, from first sketches and the selection of materials and colors to prototyping and to the finished collection. Finally, the collection was sold to wholesale partners via a digital showroom and a digital lookbook. This is made possible by high-resolution 3D renderings, which are able to represent the pleating and the structure of the material in a realistic way. For HUGO BOSS, the collection represents an important milestone in the digitization of its business model. The Company has set itself the goal of developing around 80% of its collections completely digitally by 2022. For the spring/summer 2021 collection, the share was around 50%.

Key areas of research and development

In order to reflect the **growing importance of casualization**, the research and development work of the Company is increasingly focused on gradually increasing the share of casualwear in the product mix of BOSS and HUGO, while at the same time further improving comfort by using innovative materials. The aim is to further soften the boundaries between traditional businesswear and modern casualwear. The range of classic tailored fashion is increasingly being expanded to include innovative casual tailoring styles. For example, more recently BOSS successfully introduced the **"Broken Suit"**, in which various pieces from the businesswear and casualwear segment can be combined, such as a blouson with drawstring pants. Each piece of the broken suit can be worn individually or combined in a variety of ways to create a complete look. In 2021, this concept will be further expanded, with materials used increasingly focusing on comfort and ease. This is why BOSS, for example, offers a **"washable suit"** which retains its shape even immediately after washing. The **"Stretch Tailoring"** range from BOSS is also specially designed to meet the needs of daily life through the use of stretch materials.

In order to best meet increasing customer expectations in the field of sustainability, the Group's R&D activities are also geared toward consistently expanding the share of sustainable products in its collections. For example, BOSS continued its commitment to sustainability in its collections with its **"Responsible Tailoring"** campaign in spring 2020. The campaign focused on so called **"Traceable Wool"** products as well as a completely vegan suit. Traceable wool means that the wool used is carefully monitored from its origin, through its manufacture to the finished product, allowing the consumer to trace it from start to finish. With its first **vegan suit**, BOSS has also succeeded in completely eliminating animal materials in textile production. The suit, made at the Metzingen site, was awarded the "PETA-Approved Vegan" label in 2020 by the animal welfare organization PETA. Overall, in 2020, BOSS and HUGO were able to more than double the share of **products made from sustainable materials** in their fall/winter 2021 collections as compared to the prior year. → **Sustainability**

Cooperations and collaborations

In order to further increase the desirability of its BOSS and HUGO brands, the Company is increasingly focusing on **cooperations and collaborations** with well-known brands and companies along with influential personalities and artists within the scope of its R&D activities. The aim is to provide additional creative impetus and to sustainably increase the attractiveness of both brands, particularly in the casualwear and athleisure segment. For 2021, BOSS has announced two exciting partnerships. One of these is the partnership with the iconic American sportswear brand Russell Athletic, which will see the launch of an exclusive capsule collection in pre-fall 2021. The **"BOSS x Russell Athletic"** collection has a clear focus on casualwear and ranges from apparel to shoes and accessories. The designs combine the strengths of both partners – the tailoring expertise of BOSS with Russell Athletic's sportswear aesthetic. In order to further expand the desirability of the BOSS brand, especially in the important U.S. market, BOSS has also joined forces with the **National Basketball Association (NBA)**. As part of this partnership, two capsule collections co-branded by BOSS and the NBA are scheduled for 2021. They will bear both the NBA logo and the logos of various NBA teams.

In the field of womenswear, BOSS collaborated with German fashion influencer Caro Daur for the first time in 2020, successfully launching an exclusive collection. The **"BOSS curated by Caro Daur"** capsule comprised a total of 17 pieces – from a loose-fitting trench coat made from stretch-cotton, through a classic black dress with a high neck and open back, all the way to a single-breasted blazer with peak lapels. In 2020, HUGO continued to expand its partnership with the British musician and artist Liam Payne and launched its third **"HUGO x Liam Payne"** capsule last November. Developed in close collaboration with Liam Payne, the collection supported the "Cotton made in Africa" initiative, thereby also addressing the increasing sustainability requirements of customers. For each item sold, the initiative receives a donation that helps fund the training of African cotton farmers in sustainable cultivation methods.

R&D key figures

Number of employees in R&D as of December 31

2020	**524**
2019	580
2018	584
2017	588
2016	577

The creative and development departments of the HUGO BOSS are staffed by skilled fashion designers, tailors, shoe and clothing technicians and engineers.

	R&D expenses (in EUR million)	**R&D expenses** (in % of sales)
2020	**58**	**3.0**
2019	65	2.3
2018	63	2.3
2017	63	2.3
2016	64	2.4

At 76%, personnel expenses accounted for the majority of **R&D expenses** last year (2019: 72%). The remainder is primarily composed of other department expenses. In 2020, R&D costs were again mostly recognized as expenses at the time they were incurred. In addition, production-related development expenses are included in the cost of conversion of inventories. No development expenses were recognized as internally generated intangible assets due to the short product life cycles.

SOURCING AND PRODUCTION

- **Strategic focus on increasing the efficiency and flexibility of the supply chain**
- **Own production capacity in Izmir expanded to casualwear**
- **Further digitization enables closer cooperation with suppliers**

The sourcing and production of high-quality products is crucial in order to meet the exacting customer expectations in terms of design, comfort, fit and longevity. In addition to ensuring and implementing these quality features, HUGO BOSS is constantly striving for best-in-class solutions to further **increase the efficiency and flexibility** of its supply chain. In this context, speed is a key element, in order to react promptly to changing market requirements and to better meet customer demand. For the first time in 2020, the Company was able to develop and launch a capsule collection with selected casualwear styles within eight weeks only. This was made possible primarily by the increased **use of digital technologies in product development** and the targeted stockpiling of components and materials for rapid production. In addition, at the end of 2020, HUGO BOSS made further progress in strengthening the connection between the Company and its suppliers, by launching a **digital platform** that enables an efficient and quick exchange of product information. Already in 2021, the platform is expected to be part of the Company's regular operations.

In 2020, the Group also made progress in streamlining its internal development and sourcing organization, optimizing the supplier portfolio and further accelerating the digitization of its processes. The ongoing **optimization of sourcing and production processes** is also intended to result in savings in cost of sales over the next years. The further reduction of complexity in the BOSS and HUGO collections also plays an important role in this regard. To achieve this, the Company is focused on streamlining the product range, reducing the component and material complexity and partially extending product life cycles, such as through a greater share of never-out-of-stock products. → **Group Strategy**

In terms of value, 17% of the total **sourcing volume** was produced at the Group's own facilities in 2020 (2019: 17%). The remaining 83% comprises products sourced from independent contract suppliers or sourced as merchandise (2019: 83%). Own production is used, among other things, to be able to respond quickly and flexibly to changing customer requirements and to obtain important know-how for the further development of production technologies and quality standards. The Group's four **own production facilities** are located in Izmir (Turkey), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy).

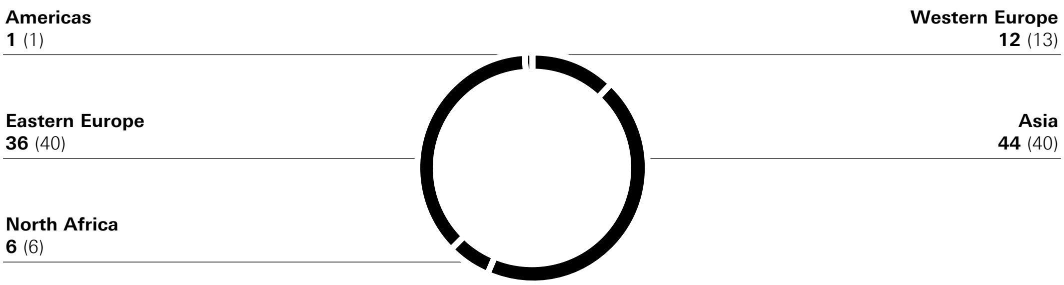
Formalwear products, such as suits, jackets, shirts and coats, as well as womenswear are manufactured in **Izmir**, by far the Company's largest own production site. The transformation of the location into a "smart factory", which has been stepped up over the past few years, has largely been completed. As a result, the location is characterized by highest levels of digitized processes and operations. The focus at the Izmir location is now mainly on further increasing the flexibility of production in order to be able to manufacture casualwear beyond formalwear and further tap into the global trend of casualization. Consequently, the first casualwear styles of the jersey product range, including trousers and jackets, had already been produced in Izmir in 2020. The production site in **Metzingen**, in turn, primarily manufactures tailored suits of the "BOSS Made to Measure" range, as well as prototypes and samples. At an early stage of the COVID-19 pandemic in 2020, production was temporarily switched to the production of face masks, which were then donated to public institutions. The **Radom** and **Morrovalle** sites mainly produce business shoes and sneakers.

HUGO BOSS attaches great importance to the **careful selection of suppliers**, and the establishment of long-term strategic partnerships. In addition to economic criteria, social and environmental aspects also play an essential role. The basis of cooperation is respect for human rights, adherence to applicable working standards and occupational health and safety. The **HUGO BOSS Supplier Code of Conduct**, which forms the basis for all supplier relationships, is an important framework for the structure of business activities. The Company verifies compliance with the Code of Conduct in the form of regular audits at the production sites and supports its suppliers with specific training on various topics. At the same time, the Company is involved in the further development of international standards and takes an active role in external cooperations to design sustainable textile supply chains. → **Combined Non-Financial Statement, Respect for Human Rights**

HUGO BOSS works with a **network of experienced and specialized suppliers** to ensure excellent processing quality and optimum availability of its products. In 2020, the number of suppliers continued to decline, reflecting the further optimization of the Company's supplier portfolio. At the end of the year, HUGO BOSS sourced finished goods from a total of 156 external suppliers (2019: 171) producing in 185 production sites (2019: 198). The Company sourced raw materials from 315 external suppliers (2019: 309) producing in 338 production sites (2019: 325).

Regional split of sourcing and production volume (in %)

2020 (2019)



The increase in sourcing volume in Asia, compared with the prior year, resulted from the higher share of casualwear and athleisurewear in the product mix, primarily sourced as merchandise. Within Asia, **China** is the most important sourcing market, accounting for around 20% of the Company's global sourcing and production volume. As in the prior year, within Eastern Europe, **Turkey** accounts for the largest part of the global sourcing and production volume at 23%. The own production site in Izmir accounts for around 13% of the global sourcing and production volume.

Fabrics and trimmings sourced by HUGO BOSS are mainly outer materials and lining fabrics, buttons, yarns and zippers. For **products made under contract**, HUGO BOSS provides suppliers with the fabrics, trimmings and the required patterns. The suppliers, which are mainly based in Eastern Europe, primarily produce formalwear requiring high levels of production expertise and technical equipment. Including the Group's own production sites, the proportion of the sourcing volume accounted for by products made under contract was below the prior year level at 32% (2019: 36%). This development mainly reflects the overall decline in demand for formalwear in the wake of the COVID-19 pandemic. The **merchandise** sourced by the Group is primarily composed of athleisurewear and casualwear products. While suppliers are provided with the relevant pattern, they source the required fabrics and trimmings independently. At 68%, the proportion of merchandise in the sourcing volume was above the prior year level (2019: 64%) and resulted from the higher share of casual and athleisurewear in the product mix compared with the prior year.

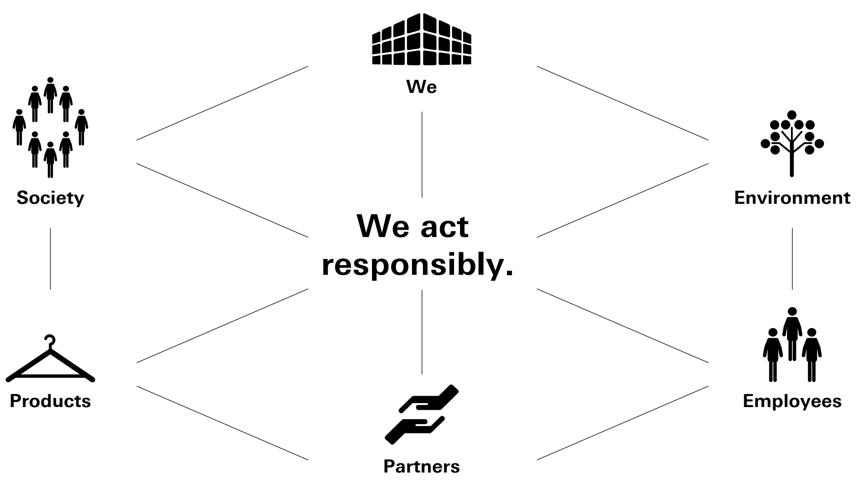
SUSTAINABILITY

- **Sustainability an integral part of business activities**
- **Focus on six fields of action: We, Environment, Employees, Partners, Products and Society**
- **Renewed inclusion in the Dow Jones Sustainability Index World**

HUGO BOSS is conscious of the economic, ecological, and social impacts of its business activities. The **guiding principle "We act responsibly"** seeks to generate added value for the Company, its employees, shareholders, customers, business partners, and society, and thus securing the Company's long-term success. Accordingly, ambitious sustainability principles are firmly anchored in the Group strategy of HUGO BOSS. The Company considers sustainability to be a combination of quality, innovation, and responsibility. Besides high-quality, innovative products, customers today increasingly demand compliance with high social and ecological standards. The **variety of sustainability activities** carried out by HUGO BOSS contribute to increasing customer satisfaction and supporting the Company's vision of being the most desirable fashion and lifestyle brand in the premium segment.

The six fields of action, **We, Environment, Employees, Partners, Products**, and **Society** provide the framework for the Company's sustainability program, "Today. Tomorrow. Always.". All of the Group's sustainability activities are managed strategically by the central department Global Sustainability, which reports directly to the Chief Operating Officer.

Strategic fields of action for sustainability



We – "Creating Values Together": With its variety of sustainability activities, HUGO BOSS is oriented towards the United Nations Sustainable Development Goals (SDGs). In the implementation and development of its sustainability strategy, HUGO BOSS relies on regular dialog with its stakeholders and close collaboration with businesses and organizations alike. This, in turn, will help to drive forward sustainability in the textile value chain. The findings gained are also incorporated into the Company's risk and opportunity management and help HUGO BOSS to enhance its own ethical standards and Code of Conduct.

Environment – "Preserving Natural Resources": The aim of environmental management at HUGO BOSS is to reduce the environmental impacts of its own business activities as far as possible. This commitment begins at its own administration and production sites, and extends through the supply chain to the Company's global store network. Through sustainable building concepts and technologies, electricity from renewable energy sources and a continuous optimization of transport routes, the Company is working to reduce its CO_2 emissions, making a direct contribution to protecting the environment. Together with other businesses, HUGO BOSS is pursuing the vision of a climate-neutral fashion industry by 2050. The Environmental Policy of HUGO BOSS published on the Company's website describes its principles and ambitions for environmental protection in all relevant parts of the Company. → **Combined Non-Financial Statement, Environmental Matters**

Employees – "Fostering a Fair and Responsible Culture": Corporate values and the Code of Conduct form the basis for day-to-day collaboration at HUGO BOSS. The Code of Conduct forms the basis for legally and ethically correct conduct in day-to-day business. This also entails appreciating diversity and ensuring equal opportunities, which is a high priority at HUGO BOSS. At the same time, HUGO BOSS aims at further strengthening its position in the international competition for the most qualified employees. To increase its attractiveness as an employer, the Company is focusing on a fair, value-based corporate structure, opportunities for individual development, and a wide range of flexible working models to better combine work and family life. In addition to further developing mobile working, the Company has implemented extensive measures to ensure the health and safety of its employees at work within the context of the COVID-19 pandemic. → **Employees**, → **Combined Non-Financial Statement, Employee Matters**

Partners – "Achieving Joint Responsibility": Complying with social and environmental standards throughout its global supply chain is crucially important for HUGO BOSS and its partners and forms an integral part of contractual agreements. The standards are based on internationally acknowledged frameworks and include, among others, rules governing working hours, humane and safe working conditions, bans on child labor and forced labor, the payment of appropriate salaries and freedom of association. HUGO BOSS attaches great importance to the careful selection of its partners, on cooperation based on a spirit of mutual trust and on the maintenance of long-term strategic relationships. → **Sourcing and Production**, → **Combined Non-Financial Statement, Respect for Human Rights**

Products – "Ideas for Tomorrow": HUGO BOSS puts strong focus on the design and quality of its products. The Company puts a strong emphasis on innovative, sustainable materials and production techniques in product development, which is becoming increasingly digital. At the same time, HUGO BOSS takes care to observe strict standards on the safety and environmental compatibility of its products and their manufacture. The Company works closely together with its suppliers and other stakeholders on environmental and animal protection solutions. Through the expansion of sustainable products in the collections of its brands, BOSS and HUGO, the continuous optimization of material efficiency, and the responsible use of chemicals in production, the Company aims to make a significant contribution to protecting the environment while meeting the increased demands of its customers.

Society – “Promoting Perspectives”: The overarching aim of the HUGO BOSS corporate citizenship strategy is to unleash individual potential for success. It is based on three pillars: access to education, equal opportunities, and providing support in times of crisis. In implementing projects and activities along the value chain, the Company also takes account of regional needs at individual locations.

The Group aims to continuously improve in all six fields of action and so has set itself ambitious targets. Sustainability ratings act as an objective indicator of the progress achieved. In 2020, HUGO BOSS was included in the **Dow Jones Sustainability Index (DJSI) World** for the fourth time in a row. Among others, the Company was ranked “best in class” in the categories of brand management, environmental and social reporting, product stewardship, and risk and crisis management. This makes HUGO BOSS one of the top three companies in the global apparel industry. Additionally, the Company was added to the **DJSI Europe** in 2020.

COMBINED NON-FINANCIAL STATEMENT

- **Statement summarizes material disclosures on sustainability aspects**
- **Nine topics identified as material within the meaning of Section 289c (3) of the German Commercial Code (HGB)**
- **Definition of reported performance indicators is oriented toward GRI Standards**

About this combined non-financial statement

Under Sections 315b and 315c HGB [“Handelsgesetzbuch”: German Commercial Code] in conjunction with Sections 289b to 289e HGB, the Company hereby publishes this combined non-financial statement for the HUGO BOSS Group and HUGO BOSS AG. It substantively summarizes the material disclosures for the Company regarding the five required aspects of **environmental, employee and social matters, respect for human rights and anti-corruption** and **bribery matters**. In the drafting of the statement, HUGO BOSS oriented itself, particularly for the definition of the reported performance indicators, toward the Global Reporting Initiative (GRI) Standards.

As part of the reporting process, HUGO BOSS has analyzed whether risks exist that are associated with its own business activity, its business relationships, and its products or services, and that very likely have or will have serious adverse impacts on the aspects listed above. HUGO BOSS has **no such risks** to report.

Unless otherwise noted, the disclosures made in this statement reflect equally the **perspective of HUGO BOSS AG and that of the Group**. With the exception of references to the chapter “Business Activities and Group Structure” as part of the combined management report, any references to information outside the combined non-financial statement comprise information going beyond the mandatory disclosures under the German Commercial Code and do not form part of the statement. The combined non-financial statement was subject to a voluntary review with limited assurance according to ISAE 3000 (Revised). → **Independent Auditor’s Limited Assurance Report**

Description of the business model

HUGO BOSS is one of the leading companies in the premium segment of the global apparel market. The **business model** of HUGO BOSS is described in detail in the chapter on “Business Activities and Group Structure.” → **Business Activities and Group Structure**

Derivation of material topics

The basis used for selecting the topics presented in this statement is a **materiality analysis** conducted by HUGO BOSS in 2019, which encompassed in particular a materiality review according to Section 289c (3) HGB. It has been analyzed to what extent the topics are of particular relevance for understanding the Company’s development, performance, and position, as well as the impact of its activity on the above aspects. In addition to the eight topics identified as material in the course of the analysis, the Company also reports on the subject of “Occupational Health”, due to its high relevance in the light of the COVID-19 pandemic.

Aspects and material topics

Environmental matters	Employee matters	Social matters	Respect for human rights	Anti-corruption and bribery matters
Climate protection in production	Employer attractiveness	Customer satisfaction	Human rights and labor standards in production	Avoidance of corruption and anti-competitive behavior
Responsible use of chemicals in production	Occupational health	Data protection	Occupational safety in production	

The aspects set out under "Environmental matters" and "Respect for human rights" relate to both the production activities of HUGO BOSS itself and the production activities of independent suppliers.

Environmental matters

Climate protection in production

In the global textile and apparel industry, CO_2 emissions are mainly generated in the cultivation and production of textile fibers as well as during energy-intensive processing stages, like dyeing, washing, or bleaching. HUGO BOSS is conscious of its shared responsibility to **protect the environment and the climate**. The introduction and development of environmentally and climate-friendly processes at its suppliers is as important to the Company as the implementation of similar measures at its own production sites.

Environmental and climate protection matters in the supply chain are managed by the **central department Global Sustainability**, which is responsible for setting out internal guidelines and standards. In addition, the **central Environmental Management Team**, in close consultation with local managers, coordinates corresponding measures at the own production sites. The Managing Board is kept regularly informed about the progress made toward the achievement of the Group's environmental and climate protection targets.

Targets

By signing the Fashion Industry Charter for Climate Action in 2018 under the aegis of the United Nations Framework Convention on Climate Change (UNFCCC), HUGO BOSS, together with other businesses, subscribed to the vision of a **climate-neutral fashion industry by 2050**.

Measures

HUGO BOSS works to protect the climate worldwide with numerous measures and initiatives both at its own sites and in its supply chain. In order to define suitable measures, as part of the **Fashion Industry Charter for Climate Action**, the Company engages with, amongst others, task forces dealing with issues such as "raw materials" and "energy efficiency and renewable energies in the manufacturing process".

In line with the UNFCCC, the Company works together with its suppliers to sustainably reduce environmental impacts along the supply chain. **Compliance with statutory environmental standards** is an integral part of the supplier contracts. In addition, the **Environmental Policy** published by HUGO BOSS on its website describes a variety of environmental protection principles, both for the Company's own production sites and for those of its suppliers. It reflects the activities and objectives pursued by the Company within the framework of the Fashion Industry Charter for Climate Action. HUGO BOSS also revised its **Supplier Code of Conduct** in 2020. It now includes even more comprehensive guidelines for complying with environmental requirements. In addition, HUGO BOSS sets binding sustainability criteria for the use and processing of textile fibers and materials for its suppliers in the form of a publicly accessible **Responsible Product Policy**.

As part of regular **environmental audits**, HUGO BOSS tracks the energy management measures put in place by its suppliers and the CO_2 emissions of those suppliers. For this purpose, the Company uses external auditors. If any violations of environmental requirements are identified, the Company works jointly with the respective supplier to develop action plans whose implementation is verified in follow-up audits. The Company also carries out relevant **training sessions** to inform its suppliers regularly about environmental and climate protection measures and to work toward the establishment of standardized energy and environmental management systems. In 2020, due to international travel restrictions related to the COVID-19 pandemic and in order to ensure the protection of all parties involved, audits and training could only be carried out to a limited extent.

As a member of the **Better Cotton Initiative (BCI)**, HUGO BOSS works together with other businesses to reduce the environmental impacts associated with the cultivation and processing of cotton. This is a matter of great importance to the Company, as cotton is by far the most extensively used material at HUGO BOSS. The BCI takes a holistic approach to sustainable cotton production that takes into account ecological, social and economic considerations.

The impact of the Company's own production activities on the climate is relatively low compared to those of external suppliers, as the upstream value-adding stages in particular involve processes with high CO_2 emissions. Nevertheless, the reduction of energy consumption and CO_2 emissions at the own production sites of HUGO BOSS plays an important role. The Group continues to develop its **Environmental Management** in line with the international standards ISO 14001 (Environmental Management) and ISO 50001 (Energy Management). The site in Izmir (Turkey) – by far the largest of the Company's own production sites – has been certified under both these standards since 2014. To further **reduce CO_2 emissions** in its own production sites, the Company is investing primarily in energy-efficient technologies, modernizing technical facilities and increasing the share of renewable energies. In terms of the latter, due to the switch to green electricity at the Radom (Poland) site in 2020, HUGO BOSS now draws its energy from renewable sources at all of its own sites. The experience obtained through its own environmental management will help the Company work together with external suppliers to make further progress in reducing environmental and climate impacts in the supply chain in future.

Performance indicators

As part of its work under the Fashion Industry Charter for Climate Action, HUGO BOSS has committed, together with other businesses, to deliver a **30% reduction in CO_2 emissions by 2030** as a first step. In order to make this target more specific, HUGO BOSS has set itself the goal of reducing its scope 1 and scope 2 emissions from primary energy use and electricity supply by at least 51% by 2030 compared to 2018. A 30% reduction is planned over the same period for scope 3 emissions from logistics and the supply chain. The Company received confirmation in 2020 that these targets meet the strict requirements of the Science Based Targets initiative. The Company expects that in 2020, scope 1 and scope 2 emissions as well as scope 3 emissions from logistics will have again been reduced, partly due to the negative impact of the COVID-19 pandemic on the business of HUGO BOSS (2019: reduction of 18%). The progress achieved in 2020 will be published in the 2020 Sustainability Report.

Responsible use of chemicals in production

HUGO BOSS is aware of its responsibility for the health and safety of the people who come into contact with its products, both as customers and during the manufacturing process. The responsible use of chemicals in production is an essential basis for **safe products and production processes that are harmless to both health and the environment**. Clear responsibilities, coordinated processes and comprehensive guidelines are targeted towards compliance with high safety and quality standards in the production processes. The Environmental Policy published on the Company's website emphasizes the ambitions of HUGO BOSS in this area.

In the fabric and trimmings production processes of independent suppliers, chemicals are particularly used in so-called wet processes, which include for example dyeing, washing, bleaching and tanning. The same applies to the production of cotton, synthetic and recycled fibers. The release of chemicals during production processes can have negative impacts on **water quality and the supply of water** to local communities in the areas surrounding production sites, among others things. HUGO BOSS therefore requires its suppliers to handle chemicals responsibly and is working to reduce their use.

Environmental matters for the supply chain are managed by the **central department Global Sustainability**. Its guidelines for compliance with relevant environmental standards are implemented by the operational sourcing units, in close cooperation with suppliers. For example, the HUGO BOSS Supplier Code of Conduct includes comprehensive guidelines for compliance with environmental protection regulations. Adherence on the part of the suppliers is continuously reviewed by HUGO BOSS and independent third parties. The Managing Board and relevant employees are regularly informed about the outcome of the work.

Targets

HUGO BOSS aims to guarantee the **safety of its products** at all times. Also, the Company is committed to further reduce the **environmental impact of wet processes** on the supplier side. To achieve both targets, the Company aims at reducing the use of chemicals that are hazardous to health and the environment in the production processes.

Measures

HUGO BOSS pays close attention to strict product safety requirements being complied with along its supply chain. The Company expects its suppliers to comply with a **Restricted Substances List (RSL)** that meets the requirements of the Apparel & Footwear International RSL Management Group (AFIRM). The RSL governs compliance with laws on the use of chemicals and other substances that are potentially hazardous to health. The safety and environmental compatibility of the materials used by HUGO BOSS and its suppliers is monitored regularly by means of extensive **product tests**. If the tests reveal noticeable problems, a pre-specified escalation process is triggered, which involves all relevant departments and, in serious cases, also includes the Managing Board.

In order to reduce environmental impacts in the production process, HUGO BOSS is working closely with its suppliers as well as with other businesses in the apparel industry, for example as part of the **Zero Discharge of Hazardous Chemicals (ZDHC)** program. The ZDHC program's **audit protocol** used by the Company enables HUGO BOSS to carry out a standardized assessment of the chemical management of its suppliers. At the same time, it is intended to help suppliers that use wet processes to improve their environmental performance. In order to further reduce the use of environmentally harmful chemicals, the Company included a ZDHC-based **Manufacturing RSL (MRSL)** as an integral component of its supplier contracts in 2020. The MRSL lists chemicals with defined thresholds and is intended to help suppliers to avoid using harmful chemicals or to limit their use to a minimum.

In 2020, HUGO BOSS also required strategically important suppliers to submit wastewater tests in accordance with the ZDHC's **Wastewater Guidelines** for the first time. The findings will be used to work together to further reduce the release of chemicals in the supply chain.

Performance indicators

HUGO BOSS has the safety and quality of its products tested by accredited institutes using comprehensive tests for harmful substances. The aim is to minimize the **share of products that do not meet market requirements** while also ensuring that such products are rejected. In 2020, around 2,650 materials were tested (2019: around 3,950). In this context, substantially less than 0.5% of the tested products turned out not to be market-compliant and were consequently rejected (2019: less than 0.5%).

The Company also aims to ensure that by 2030, all of its suppliers that use wet processes are **compliant with the specifications of the ZDHC-based MRSL**, measured on the basis of the suppliers reports on wastewater values and chemicals inventory. All strategically important finished goods suppliers that use wet processes are to achieve this goal as early as 2025. Based on wastewater tests that HUGO BOSS conducted in 2020, already 20% of those suppliers proved compliance in regard to the Wastewater Guidelines of ZDHC. At the same time, given a still persisting lack of transparency, conformity of the respective chemicals inventories could not be conclusively assessed. Within the ZDHC program, and in close collaboration with its suppliers, HUGO BOSS will continue to work on further increasing transparency with regard to the wastewater values and chemicals inventory of its suppliers.

Employee matters

Employer attractiveness

Achieving the Group's strategic and financial targets is largely dependent on its employees and on their skills and commitment. Increasing complexity and a fast-moving competitive environment are leading to a growing demand for skilled employees and executives. HUGO BOSS therefore strives for continuing to strengthen its position in the international competition for the most qualified employees. To increase its attractiveness as an employer, in addition to a fair and value-based corporate culture, the Company is also working primarily to create **opportunities for individual development** and a variety of offers to make it easier to **combine work and family life**.

The **central department Human Resources** is responsible for personnel strategy and personnel management across the Group. It remains in close contact with the managers of the central departments and with the HR departments and managers of the Group companies. The Managing Board is kept regularly informed of the progress of the personnel work and is involved in all significant decisions.

Targets

Further **increasing its attractiveness as an employer** is an important target in the personnel work at HUGO BOSS. The Company wants to strengthen its position in the international competition for highly qualified workers and to increase motivation, commitment and loyalty among its approximately 13,800 employees.

Measures

For HUGO BOSS, systematically training and developing its employees and supporting the combination of work and family life are among its top strategic personnel management priorities. → **Employees**

HUGO BOSS offers its employees a variety of opportunities for individual development. Structured training programs, such as the **Employee Development Program (EDP)** and the **Leadership Development Program (LDP)**, are designed to support employees in ways that are appropriate to their abilities, to broaden their knowledge and to strengthen their skills, for example with a view to pursuing a management career. The development programs already in practice in Germany and at selected international locations were temporarily suspended due to the COVID-19 pandemic. The EDP is currently being revised, with the aim of potentially establishing it in all Group companies together with the LDP. Moreover, employees have access to a broad selection of face-to-face and online live training along with e-learning courses on social, professional and management skills via the Group-wide **“HUGO BOSS University”** platform. At the Group’s own production and logistics sites, face-to-face training sessions and workplace orientations are an integral part of the onboarding process for industrial staff. While the availability of online live training and e-learning continued to grow in importance in 2020 as a result of the pandemic, face-to-face training could only be conducted to a limited extent.

In 2020, HUGO BOSS successfully completed the introduction of the **“Performance & Development Dialog” (PDD)** to support the creation of individual development opportunities on the process and system side. With the help of an online tool, the PDD aims to bring about further improvements in areas such as performance evaluation, assessment of potential and development planning, initially at the Group’s headquarters in Metzingen and in selected European locations. In this way, HUGO BOSS intends to create greater transparency within the Group, particularly with regard to possible cross-departmental and transnational development paths, to get the best out of employees and create a sense of loyalty to the Company among talented workers for as long as possible. The PDD will be available to all administrative staff from 2021 onwards. In addition, the first pilot projects have already taken place in Germany, Austria and Switzerland with employees of the Group’s own retail business.

To increase its attractiveness as an employer, HUGO BOSS also supports its employees in combining work and family life. A **multitude of flexible working models**, such as individual part-time arrangements, trust-based working hours or working from home, are designed to further increase motivation and commitment among employees. The majority of the Group’s employees already benefit from flexible working hours and possible part-time arrangements. For example, employees in the own production site in Izmir (Turkey) are able to take accrued overtime hours as time off within two months or make use of alternative part-time arrangement options. **Working from home** is now available to almost all administrative staff in the Company. In 2020, HUGO BOSS also introduced the **hybrid “Threedom of Work” concept**, which initially applies to administrative staff in Germany. The concept provides for three days of attendance at the Company’s headquarter in Metzingen from Tuesday to Thursday. Employees can choose their place of work on the other two days. This model is the Company’s response to the increasing desire of employees for flexibility in terms of where and when they work. At the same time, it reflects the Company’s positive experiences with the home office concept during the pandemic. HUGO BOSS is one of the first companies in the fashion industry to make the permanent expansion of mobile working standard. The Company is working to establish comparable models in other Group companies in the future.

HUGO BOSS is also involved in the collaboration **“Success Factor Family”** to strengthen family-friendliness across Germany. The Company already offers a broad variety of family-friendly options to its employees. For example, young families at the Metzingen site have access to places in the local daycare center and **holiday care programs**. In 2019, construction work also began on a Company-owned **daycare center** there, which is planned to open in 2022. HUGO BOSS also established virtual **training courses** in 2020, specifically aimed at strengthening the mental and social health of employees during the pandemic, including a seminar on “Home Office with Kids”. At international sites too, the Company promotes the combination of professional and private life. For example, employees in the United States and Canada have free access to an **Employee Assistance Program (EAP)**, which offers independent advice on matters such as childcare and caring for family members. In addition, employees there have the choice of spending part of their personal gross income on external care and support services through **flexible spending accounts (FSAs)**.

The attractiveness of HUGO BOSS as an employer was also awarded several prizes in 2020. In the annual survey conducted by the Trendence and Universum institutes, the Company was once again among the **top 100 most attractive employers in Germany** among relevant target groups. In the study **"Working in Fashion 2020"** conducted by the German industry magazine Textilwirtschaft, HUGO BOSS took third place, retaining its place from the prior year. The Company scored particularly well in the categories of working internationally and salary levels. In fact, the Company ranked second in both categories.

Performance indicators

HUGO BOSS determines the satisfaction and the needs of its employees as part of an employee survey conducted annually in cooperation with Great Place to Work® Germany. The knowledge gained provides the Company with an important stimulus for the further development of its personnel work and the corporate culture. With a Group-wide participation rate of 70%, **overall satisfaction** increased to 72% in 2020 (2019: Overall satisfaction of 70% with a participation rate of 66%). At HUGO BOSS AG, overall satisfaction rose to 82% (2019: 76%). Compared with the prior year, more employees stated that they were proud of what they had accomplished together and that they were convinced that their work would make an important **contribution to society**. HUGO BOSS has set itself the target of raising overall satisfaction across the Group to 75% by 2025.

Occupational health

As a **responsible employer**, HUGO BOSS attaches great importance to the health of its employees. In general, the Company has taken comprehensive measures to ensure the occupational health of its workforce. The **Health and Safety Commitment** published on the Company's website emphasizes how much of a priority the matter is for the Company. The commitment derives from the HUGO BOSS Code of Conduct and supplements the rules set therein.

Responsibility for occupational health at HUGO BOSS is taken locally. **Clear responsibilities** are defined in administration as well as in the Group's own retail, production and logistics facilities. The responsible employees report regularly to the management of the respective Group companies, which is in close contact with the Managing Board.

Targets

The goal of HUGO BOSS is to **protect the health of its employees as comprehensively as possible**. High health and safety standards play a significant part in achieving this goal. In 2020, this topic has become even more important in the light of the **COVID-19 pandemic**. HUGO BOSS implemented comprehensive measures at an early stage of the pandemic to protect its employees from any potential infection as effectively as possible, which also allowed to maintain its business operations. The following section will look at these measures in detail.

Measures
At the end of January 2020 already, HUGO BOSS set up an **interdisciplinary coronavirus crisis team** for the Metzingen site and surrounding logistics locations, which closely monitors the course of the pandemic and comprehensively coordinates all measures taken by the Group to protect its employees. In addition to decision-makers from various departments, the team also includes members of the Works Council and medical professionals. Important decisions and measures have been closely coordinated with the Managing Board at all times and regularly communicated to employees, for example via email. This includes both concrete measures for the safe interaction of employees with one another and general information, for example regarding official travel warnings or current quarantine regulations. Appropriate protective measures and important rules of conduct have also been summarized in an internal **policy**, which has been made available to all employees.

Almost all administrative staff has been able to **work from home**. Wherever this was not possible for operational reasons, appropriate precautions were taken, for example for employees in the Group's own retail, production and logistics facilities. The measures implemented to **create a safe working environment** include restrictions to the number of staff permitted on site and shift models, ensuring minimum safe distances and the provision of appropriate fresh air ventilation, disinfectant and protective masks, as well as technical protective measures such as the installation of plexiglass walls. In the course of the pandemic, an **obligation to wear a face mask** was also introduced on the premises of the Company's headquarters in Metzingen as well as in the surrounding logistics sites. Similar schemes are also in place at the Company's other international locations.

Social matters

Customer satisfaction
For HUGO BOSS, the **desirability of its two brands, BOSS and HUGO**, is the most important factor for long-term success. The goal of maximizing customer satisfaction is in line with this fundamental concept. The clear focus on the customer is firmly anchored in the Group's strategy as one of the four guiding principles. Customer benefit and customer satisfaction are both a benchmark and a target in all key decisions. → **Group Strategy**

At HUGO BOSS, customer satisfaction is systematically measured and evaluated by the **central department Group Strategy**, which reports directly to the Spokesperson of the Managing Board. The Managing Board is kept regularly informed of the progress and results of the work.

Targets
Particularly in times of intense competition and constantly increasing customer demand, the **target of maximizing customer satisfaction** contributes to the long-term increase in enterprise value.

Measures
Key levers for increasing customer satisfaction for HUGO BOSS include **enhancing the shopping experience**, continually **optimizing the product offering** and constantly **improving product and service quality**. In 2020, HUGO BOSS invested in further optimizing its online store and expanding it to other markets, as well as in the modernization of selected BOSS stores. In addition, the Company has further strengthened its casualwear offering. The Company has also ramped up its marketing activities by means of partnerships and collaborations, in order to focus even more on the customer.
→ **Group Strategy**

HUGO BOSS relies on **systematic Customer Experience Management** (CEM) as an important instrument for measuring customer satisfaction. This system gathers, aggregates and evaluates feedback from customers given on a voluntary basis and makes it available to the relevant decision-makers in real time. The focus is on evaluating the shopping experience through suitable key figures such as the "Net Promoter Score" (NPS) and a five-star rating system. Immediately upon its introduction in 2019, all freestanding retail stores in Europe, as well as the Group's own online stores there, were connected to the relevant software. In 2020, the Company also connected its own stores in the Americas and major Asian markets along with the global online store hugoboss.com to the CEM. This, for example, allows to observe and compare the subjective perceptions of customers in individual stores or countries in real time. As a result, sales staff can be trained in a more targeted way. At the same time, specific measures can be developed to further optimize the online ordering process. In 2020, the CEM allowed to track the success of individual marketing instruments, as well as customer perceptions regarding, for example, the product range and product quality through topic-specific customer surveys for the first time.

Performance indicators

When evaluating the data obtained, the **NPS** is the most important key figure, measuring the likelihood of a customer recommending the BOSS or HUGO brands. Also in 2020, HUGO BOSS was able to further increase the NPS. The Company aims at further improving this indicator in the future.

Data protection

The aim of data protection is to guarantee the **individual's right to self-determination in terms of information**. Because of the ongoing digitization of the Company's business model, this topic is also steadily becoming more important for HUGO BOSS. Customer data, in particular data from its own online business and the customer loyalty program, is highly relevant for the future success of HUGO BOSS. Equally important to HUGO BOSS is the proper handling of its employees', business partners' and shareholders' data. Any breach of data protection laws represent an increased compliance risk. The Group aims to counter this risk using a system that complies with data protection laws and through appropriate technical and organizational measures. → **Risk Report, Material Organizational Risks**

The **central Data Protection Officer** is responsible for data protection monitoring and compliance. The Company has also assigned responsible staff in the international Group companies. In addition, a **centrally operated data protection unit** was established. The purpose of this unit is to work closely with the Data Protection Officer and the data protection coordinators of key departments of HUGO BOSS AG in order to ensure personal data are processed in a legally compliant way. The **work focuses** on the continuous assistance for departments in data protection issues, early identification of risks, remediation of weaknesses, and employee education. Any contraventions must be reported to the Data Protection Officer. The Managing Board is kept updated on the progress of work via regular data protection reports.

Targets

HUGO BOSS aims to completely rule out any **contraventions** of applicable data protection laws as far as possible.

Measures

Group employees are educated about data protection issues by means of general and activity-related **training courses** and a separate confidentiality obligation. A comprehensive **e-learning program** on data protection was also established in 2020. From now on, it is to be completed on a regular basis by all employees with PC access. Its purpose is to further raise awareness about processing personal data, especially in the light of the provisions of the EU Data Protection Basic Regulation. The Company has additionally developed an internal **data protection policy** as well as other data protection guidelines, to guarantee the comprehensive rights of affected persons, in particular. The guidelines are regularly checked to ensure they are up to date in terms of the applicable data protection provisions, and constantly further developed.

All internal **processes and systems** for processing personal data are measured on an ongoing basis and further developed to ensure that they comply with the legal data protection guidelines. The improvements are aimed at preventing data misuse and theft. There are extensive data protection provisions for the Company's online presence and mobile apps, for example. When legal violations have been discovered, the Company has implemented **contingency plans** to initiate countermeasures.

Performance indicators

In 2020, as in the prior year, the Company knew of **no violations** in the sense of data protection breaches that had been determined by an official authority or a court.

Respect for human rights

Under "Respect for Human Rights", HUGO BOSS addresses two significant topics relating to the social impact in the supply chain (including its own production): **human rights and labor standards** along with **occupational safety**. In the following, the topics are covered together, as they are both part of the HUGO BOSS social compliance program and are therefore closely interconnected.

HUGO BOSS considers respect for human rights and compliance with applicable labor standards in its global supply chain to be **integral parts of its corporate culture**. A key part of the sourcing volume of HUGO BOSS is attributable to finished goods produced by independent suppliers in less economically developed regions. In some of these regions, the political and social protection mechanisms for workers are relatively minimal. HUGO BOSS is aware of its **shared responsibility** for the employees in its supply chain. A commitment by the Managing Board to safeguard and respect human rights can be accessed on the Company's website.

Respect for human rights is the responsibility of and managed by the **central department Global Sustainability** in close consultation with the operational sourcing units. The results of the work are the subject of regular reports to the Managing Board. In addition, the issue of human rights is integrated into the Company's **risk management system** along with clearly defined processes and responsibilities. Responsibility for occupational health and safety in the Group's own production is organized locally. The employees responsible at the various sites report at regular intervals as well as incident-related to the **management of the respective Group companies**, which is in close contact with the Managing Board.

In case of any indication of violations of human rights or labor standards, both the Group's own employees and the employees of suppliers have recourse to a defined grievance mechanism through which they can reach out to the responsible contact person at HUGO BOSS directly, or an independent external **ombudsman**. Any violations will be investigated, sanctions imposed, and action taken under the primary responsibility of the central Compliance department, which submits regular compliance reports to the Managing Board and the Audit Committee of the Supervisory Board.

Targets

HUGO BOSS endeavors to achieve compliance with statutory and internal company regulations on both **human rights and labor standards**, both in its own production and that of its suppliers, while at the same time granting **occupational safety** for all employees.

Measures

HUGO BOSS attaches great importance to the **careful selection of its partners**, on cooperation based on a spirit of mutual trust and on the establishment and maintenance of long-term strategic relationships. In this context, the creation of a shared understanding and assistance in the further development of competencies to manage social issues plays an important role. HUGO BOSS imposes an obligation on its suppliers to comply with its **Supplier Code of Conduct**, which is the most important framework for compliance and improving social matters in the supply chain and forms an integral part of contractual agreements. It is based on internationally acknowledged standards such as the Core Conventions of the International Labor Organization (ILO) and includes rules governing the observance of national legislation, working-hour restrictions, humane and safe working conditions, bans on child labor, forced labor and discrimination and the payment of reasonable wages. In countries where the national statutory requirements fall short, the Code sets a minimum standard. This Code is available in 23 languages on the Company's website. The Group's own employees are subject to the **HUGO BOSS Code of Conduct** and the **HUGO BOSS Human Rights Policy** published in 2020.

To further develop industry standards, HUGO BOSS works in close **cooperation** with other businesses and organizations. For example, the Company is committed to the "Living Wages" initiative by the Partnership for Sustainable Textiles. For HUGO BOSS the underlying **principles of fair compensation** include the regulated payment of wages, the performance-based compensation of hours actually worked, the right to collective bargaining and the prevention of pay inequality. In 2020, managing the impact of the COVID-19 pandemic was a key priority of the Company's supply chain management. The Company was engaged in a continuous dialog with its suppliers about suitable measures to reduce the risk to health. In dealing with suppliers, the Company was guided by the **guidelines for responsible purchasing practices** developed by the Partnership for Sustainable Textiles in response to the pandemic. HUGO BOSS has also launched a Supplier Financing Program to safeguard the financial stability of its suppliers.

As a responsible employer, HUGO BOSS also attaches great importance to the occupational safety of its employees at work. This is especially reflected in the high standards of occupational safety at its own production sites. For example, as part of **health and safety inspections and risk assessments**, potential risks are identified and assessed at an early stage so that solutions can be developed. In addition, **face-to-face training courses** and **workplace training** are an integral part of the onboarding process of industrial staff at the Company's own production sites. The **Health and Safety Commitment** published on the Company's website emphasizes the relevance of this topic.

HUGO BOSS regularly **audits** compliance with social standards and occupational safety regulations. For this purpose, the Company also uses external auditors. If infringements of the social standards are identified, the Company works jointly with the respective supplier to develop action plans whose implementation is verified in follow-up audits. If no adequate improvement can be shown during the implementation of these corrective measures, as a last resort, HUGO BOSS will initiate the termination of the supplier relationship. To prevent any infringements of the social standards, HUGO BOSS attaches a high priority to the further development of the social compliance management systems of its suppliers. The Company regularly conducts **social compliance training courses** at its finished goods suppliers and supports them in implementing the social standards. The Company's own employees are also to be educated further in social compliance matters through regular **training sessions**. Against the backdrop of the COVID-19 pandemic, fewer in-person training sessions and courses took place in 2020 than originally planned.

Performance indicators

In 2020, the Group's own production was once again carried out in four production sites in four European countries. In addition, HUGO BOSS was in an active commercial relationship with 185 external finished goods production facilities in 26 countries in 2020 (2019: 198 production facilities in 25 countries). During the reporting period, **76 audits** were conducted in 71 existing finished goods production facilities (including the Company's own production sites) (2019: 119 audits in 93 production facilities). The decrease compared to the prior year is mainly due to a reduction in the number of audits against the backdrop of the pandemic, and the associated lockdowns and travel restrictions. Infringements that were identified in 2020 related primarily to the areas of working hours and remuneration.

HUGO BOSS has set itself the goal by 2025 of procuring 100% of its sourcing volume from finished goods suppliers (including its own production sites) with one of the **top two performance levels** ("good" or "satisfactory") in the most recent audit. As at December 31, 2020, this proportion was 96% (2019: 93%).

Anti-corruption and bribery matters

Avoidance of corruption and anti-competitive behavior

Ethically correct and lawful conduct includes the prevention of corruption and anti-competitive behavior. HUGO BOSS expects all employees to act lawfully in day-to-day business operations. For HUGO BOSS, **corporate compliance** is a key responsibility of the Managing Board and includes measures to ensure adherence to legal and official regulations, as well as internal guidelines and codes. These include anti-corruption, anti-bribery, and antitrust regulations.

The **central Compliance department** reports directly to the CFO in his role as Chief Compliance Officer and supports him in the monitoring of effective compliance management. The department works together with the compliance officers in the Group companies to implement and continually further develop the compliance program. The Audit Committee of the Supervisory Board is kept regularly informed of the Compliance department's activities.

Targets

Compliance management at HUGO BOSS aims at **Group-wide legally compliant behavior**. The aim is to prevent legal violations such as corruption, bribery and antitrust violations which may result not only in reputational and financial risk but may also lead to personal consequences under criminal and labor law.

Measures

All employees of HUGO BOSS are required to comply with the Group-wide **Code of Conduct** and supplementary specific **compliance rules**, such as antitrust law guidelines and capital market guidelines. Both the publicly accessible Code and the internal guidelines are reviewed regularly and the content is updated, especially with regard to changes in legal requirements. For example, the Company is currently revising its internal procurement policy, which it aims to complete in 2021. In addition, Group companies are subject to regular **risk analysis** and detailed **audits** where applicable. Any infringements are reported to the Managing Board and the Supervisory Board.

A Group-wide **e-learning program** to be completed by all employees with PC access is intended to raise awareness of the compliance rules. From mid-2021, the program also will be available in Turkish, Italian, and Chinese, making a total of seven languages going forward. Staff in positions where compliance is particularly relevant receive topic-specific **face-to-face training courses**, such as antitrust law. HUGO BOSS does not tolerate any intentional misconduct or serious compliance infringements.

At HUGO BOSS, employees, suppliers and trading partners can notify an external **ombudsman** in confidence if there are any indications of fraud, infringements of antitrust law or other compliance breaches. If desired, it is also possible to do this anonymously. The ombudsman's contact data can be found on the Company's website.

Performance indicators

In 2020, the Danish competition authority found that there was a breach of antitrust law concerning the alleged disclosure of information relating to HUGO BOSS prices and quantities to local trading partners. HUGO BOSS took a different view of this and thus lodged an appeal with the relevant appeals board. A preliminary decision on this case is not expected before spring 2021. No fine has been imposed so far. Beyond this, in 2020, as in the prior year, no further violations in the sense of legal violations regarding corruption, bribery or antitrust cases determined by an official authority or a court were identified in the Company.

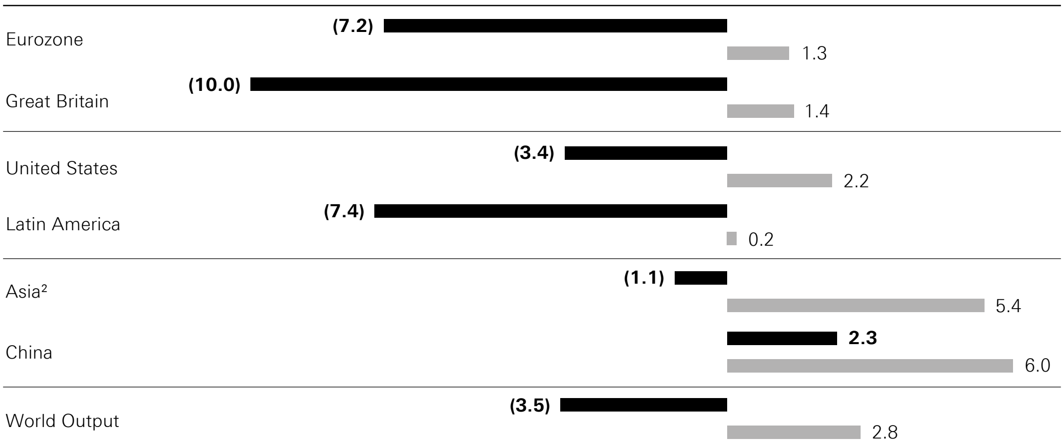
GENERAL ECONOMIC SITUATION AND INDUSTRY DEVELOPMENT

- **Development of global economy impacted by implications of COVID-19 pandemic**
- **Economic performance declines in all regions except China**
- **Lower demand significantly weighs on sales in the premium and luxury goods industry**

General economic situation

In 2020, the **COVID-19 pandemic** had a severe negative impact on the global economy. According to the International Monetary Fund (IMF), the global economy has shrunk by 3.5% last year (2019: increase of 2.8%). In the first half of the year, a noticeable decline in demand in connection with global lockdown and quarantine measures had a particularly negative impact on consumption. Monetary policy countermeasures and comprehensive liquidity initiatives only partially offset the decline in private consumer spending. In addition, companies temporarily suspended planned investments due to the persisting high level of uncertainty. After reaching a temporary annual low during the course of the second quarter, global economic output started to gradually recover following the lifting of the first lockdowns. In particular, private consumer spending benefitted from this, thus recovering strongly in the third quarter. Towards the end of the year, the renewed rise in infections and the return to lockdowns in particular in much of Europe had a negative impact on global economic development.

Growth of the global economy[1] (in %)



[1] Estimates IMF.
[2] Without Japan.

■ **2020**
■ 2019

According to IMF estimates, the economy of the **Eurozone** declined by 7.2% in fiscal year 2020 (2019: increase of 1.3%). Economies with a comparatively large manufacturing sector, such as Germany, performed relatively better than those highly depending on service and tourism, such as Italy and Spain. In France, too, where the first lockdown lasted particularly long and where the second lockdown was implemented at an early stage towards the end of the year, economic performance has been relatively weak. The same applies to **Great Britain**, whose economic output, according to the IMF, has fallen by as much as 10.0% in 2020 (2019: increase of 1.4%). In order to cushion the negative implications of the pandemic, decision-makers at national level and the European Central Bank initiated comprehensive monetary policy measures at an early stage, laying the foundations for the economy to recover in 2021.

According to the IMF, the **U.S.** economy shrunk by 3.4% in 2020 (2019: increase of 2.2%). After having reached a low in April, the economy increasingly recovered over the remainder of the year in light of lifted lockdown measures. In addition, comprehensive economic measures, such as financial relief for low and middle-income households, further fueled the economic recovery over the course of the year. However, the renewed rise in COVID-19 infections toward the end of the year put a renewed strain on economic performance. The economy in **Latin America** was also significantly affected by the implications of the pandemic in 2020, with the recovery progressing only slowly.

In **China**, the economy recovered comparably rapidly following the lockdown in the first quarter, and even recorded growth for the year as a whole. The IMF estimates that the Chinese economy grew by 2.3% in 2020 (2019: 6.0%). Supported by extensive monetary and fiscal policy measures, Chinese industrial production has grown particularly strong since the middle of the year, thereby becoming the growth engine of the recovery. By contrast, in **Japan**, where the lockdown lasted comparably long, economic activity is recovering only slowly.

Industry development

In 2020, the global apparel industry has been severely affected by the implications of the pandemic. A decline in sales reflecting the general softness in demand, increased discounting and changing customer behavior weighed strongly on the industry. In a joint study, The Business of Fashion and management consultancy McKinsey & Company estimate that total economic profit of companies in the **global apparel industry** fell by 93% in 2020, compared to a 4% increase in the prior year. In this context, the **upper premium segment of the apparel industry**, which represents the best benchmark for HUGO BOSS, performed weaker than the luxury segment, as the uncertainties caused by the pandemic have had less impact on wealthy clients in the luxury segment. In addition, companies with a comparatively high exposure to Asia and a robust online penetration performed comparably better in 2020.

Industry development varied significantly across regions. While most markets in **Asia/Pacific**, including Australia, Japan and Southeast Asia, were affected by widespread store closures, industry sales in mainland China returned to growth already in the second quarter. This was primarily driven by a repatriation of local demand, declining infection rates and an overall positive consumer sentiment.

In **Europe**, where demand for premium apparel began to pick up again towards the end of the second quarter, the recovery was significantly slower as compared to mainland China. In the fourth quarter, further lockdowns and temporary store closures in important European markets such as Germany, France and Great Britain put renewed pressure on industry development. The strong decline in international travel caused by the pandemic also had a negative effect on industry sales, particularly in southern European markets and in major metropolitan areas.

In **the Americas**, the financial implications of the pandemic and long-lasting store closures had a negative impact on the industry well into the third quarter. In addition, social unrest and demonstrations towards the middle of the year weighed on consumer confidence in the U.S. market. Only towards the end of the year, implemented economic and fiscal measures took effect, noticeably supporting industry development in the U.S. On the other hand, in Canada, which suffered from a return to lockdowns and renewed store closures towards the end of the year, the industry performed comparatively weaker.

COMPARISON OF ACTUAL AND FORECAST BUSINESS PERFORMANCE

- **Business performance in 2020 severely impacted by COVID-19 pandemic**
- **Significant decline in sales and operating result (EBIT)**
- **Strong momentum in Online and in mainland China continues**

After a very encouraging start to fiscal year 2020, the rapid spread of COVID-19 led to a significant impact on the global business of HUGO BOSS. In particular, widespread temporary store closures in light of global lockdowns, large-scale restrictions on public life including extensive social distancing measures, and international travel restrictions put a significant strain on sales, operating result (EBIT) and free cash flow. The **implications of the pandemic** became particularly evident in Europe, by far the Group's largest region, and the Americas. In Asia, however, the swift recovery of business in mainland China compensated for some of the declines in the region's other markets.

Despite the noticeable negative impact of the pandemic on its business, in 2020 HUGO BOSS continued to make significant progress with its **strategic growth drivers Online and China**. With a currency-adjusted sales increase of 49%, the Company's own online business performed particularly well, posting strong double-digit growth for the third year in a row. This was supported by sales generated via hugoboss.com as well as by self-managed offerings on key partner websites in the concession model, each posting significant double-digit growth in 2020. Sales in mainland China, on the other hand, were able to return to double-digit growth as early as during the second quarter, after having been severely impacted in the first quarter. Overall, currency-adjusted sales in mainland China grew 5% in full year 2020. From a brand perspective, further **increasing the desirability of BOSS and HUGO** was a clear focus of all of the Company's initiatives in 2020. Thanks to a variety of digital events, exclusive collaborations with brands and ambassadors and a strong focus on casualwear, the attractiveness of both brands was further enhanced. At the same time, HUGO BOSS succeeded in **further improving the efficiency and flexibility of its operational processes** in 2020 – largely reflecting its consistent focus on driving digitization across the entire value chain. → **Group Strategy**

Thanks to its healthy balance sheet structure, HUGO BOSS was well prepared for the financial challenges associated with the pandemic at all times. In this context, at an early stage of the pandemic, the Company has initiated and successfully executed comprehensive measures with a total volume of at least EUR 600 million aimed at **protecting cash flow**. In particular, the Company significantly reduced its operating expenses, postponed non-business-critical investments, significantly reduced the merchandise inflow and suspended the dividend payment for fiscal year 2019, with the exception of the legal minimum dividend of EUR 0.04 per share. Furthermore, the Company secured further credit commitments in 2020 and successfully exercised the option to increase its revolving syndicated loan, thereby further strengthening its financial flexibility during the course of the year. → **Earnings Development, Income Statement,** → **Financial Position, Statement of Cash Flows and Free Cash Flow**

In the wake of the COVID-19 pandemic, on March 18, 2020, HUGO BOSS had withdrawn its **initial outlook** for fiscal year 2020 as provided in the 2019 Annual Report. Due to the high level of uncertainty regarding the further development of the pandemic, the Group was not able to provide a new, reliable forecast for its key performance indicators in the remainder of fiscal year 2020.

Comparison of actual and forecast business performance

	Result 2019	Outlook 2020[1]	**Result 2020**
Group sales	EUR 2,884 million	Development within a range of 0% to +2%[2]	Decrease by 31%[2] to EUR 1,946 million
Operating result (EBIT)	EUR 344 million	EUR 320 million to EUR 350 million	EUR (236) million[3]
Group's net income	EUR 205 million	Increase of up to 10%	EUR (219) million[4]
Trade net working capital (TNWC) as a percentage of sales	20.1%	Increase by around 50 basis points	Increase by 860 basis points to 28.7%
Capital expenditure	EUR 192 million	EUR 140 million to EUR 160 million	EUR 80 million

[1] In the wake of the COVID-19 pandemic, on March 18, 2020, HUGO BOSS had withdrawn its initial outlook for fiscal year 2020 as provided in the 2019 Annual Report.

[2] Currency-adjusted.

[3] Excluding non-cash impairment charges related to the negative impact of COVID-19 on its own retail business, EBIT amounted to minus EUR 126 million.

[4] Excluding non-cash impairment charges related to the negative impact of COVID-19 on its own retail business, net income amounted to minus EUR 131 million.

Overall, currency-adjusted **Group sales** decreased by 31% in 2020. This corresponds to a sales decline in Group currency of 33% to EUR 1,946 million (2019: EUR 2,884 million). While the sales decrease in own retail was slightly lower than in wholesale, both distribution channels were significantly affected by temporary store closures in the wake of the lockdowns. On average, around 20% of the Company's own BOSS and HUGO stores globally were closed in 2020. In addition, large-scale restrictions on public life in many markets and far-reaching international travel restrictions had a significant negative impact on sales development. → **Earnings Development, Sales Performance**

In addition to the significant decline in sales, a lower gross margin reflecting increased markdown activity, also weighed on the **operating result (EBIT)**. While the EBIT in fiscal year 2020 totaled minus EUR 236 million (2019: plus EUR 344 million), this also reflects non-cash impairments of non-current assets in the amount of EUR 110 million (2019: EUR 10 million). These were directly related to the negative implications of the pandemic on the Group's retail business, primarily reflecting impairments of fixed store assets in the amount of EUR 69 million and right-of-use assets in the amount of EUR 37 million. Excluding those impairment charges, EBIT amounted to minus EUR 126 million (2019 excluding impairment charges: plus EUR 355 million). The comprehensive expense-reduction measures implemented by HUGO BOSS at an early stage of the pandemic partially compensated for the decline in EBIT. The **Group's net income** amounted to minus EUR 219 million in fiscal year 2020 (2019: plus EUR 205 million). Excluding the impairment charges, net income amounted to minus EUR 131 million (2019 excluding impairment charges: plus EUR 212 million). → **Earnings Development, Income Statement**

The moving average of **trade net working capital (TNWC)** as a percentage of sales on the basis of the last four quarters increased to 28.7% (2019: 20.1%), primarily reflecting the decline in Group sales While inventories at the end of the year were only slightly above the prior-year level, trade receivables declined noticeably, reflecting lower sales in the wholesale business. → **Net Assets**

At EUR 80 million, **capital expenditure** came in well below the prior-year level (2019: EUR 192 million), reflecting the reduction of the investment budget as part of the Company's measures to secure cash flow. In 2020, investing activity was focused on optimizing and modernizing the own store network, the global expansion of the Company's own online business as well as the Group's IT infrastructure.
→ **Financial Position, Capital Expenditure**

EARNINGS DEVELOPMENT

- **Sales development in 2020 severely impacted by the implications of the pandemic**
- **Strategic growth drivers China and Online with ongoing strong momentum**
- **Comprehensive expense-reduction measures limit the decline in earnings**

In fiscal year 2020, both the retail sector and the apparel industry were severely impacted by the **COVID-19 pandemic**. Widespread temporary store closures in light of global lockdowns, large-scale restrictions on public life including extensive social distancing measures, and international travel restrictions put a significant strain on global industry sales. Also the business of HUGO BOSS was severely impacted by the pandemic. After a very encouraging start to the year, the rapid spread of COVID-19 led to a significant impact on the global business of HUGO BOSS. However, towards the middle of the year and following the end of the first lockdowns in many markets, business started to recover strongly. The business recovery, which was particularly noticeable in the third quarter, slowed down in the fourth quarter due to renewed restrictions on public life and the related temporary store closures in many important markets. On average, around 20% of the Company's own retail stores globally were closed in 2020.

Consequently, **Group sales** decreased by 31% to EUR 1,946 million in fiscal year 2020, adjusted for currency effects (2019: EUR 2,884 million). In Group currency, sales were down 33%, as currency effects had a slightly negative impact on sales development in the reporting period.

Sales by region

Sales by region (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %	Currency-adjusted change in %
Europe[1]	1,231	63	1,803	63	(32)	(31)
Americas	308	16	560	19	(45)	(42)
Asia/Pacific	343	18	438	15	(22)	(20)
Licenses	64	3	84	3	(23)	(23)
Total	**1,946**	**100**	**2,884**	**100**	**(33)**	**(31)**

[1] Including Middle East and Africa.

In **Europe** (including the Middle East and Africa) double-digit sales decreases in all major markets contributed to the overall decline in sales. This primarily reflects temporary store closures in the wake of the lockdowns, which severely weighed on regional sales in 2020. Significantly lower tourist flows in light of international travel restrictions put an additional strain on the sales development. Also in **the Americas**, the pandemic and the related temporary store closures significantly burdened sales development. In addition, unrest and demonstrations towards the middle of the year negatively impacted business in the U.S. In **Asia/Pacific**, many markets recorded double-digit sales declines as well. On the other hand, business in mainland China, which is a strategically important market for HUGO BOSS, returned to double-digit growth already in the course of the second quarter, thus offsetting the regional sales decline to some extent. → **Earnings Development, Sales and Earnings Development of the Business Segments**

Sales by distribution channel

Sales by distribution channel (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %	Currency-adjusted change in %
Own retail business	1,279	66	1,869	65	(32)	(30)[1]
Brick-and-mortar retail	1,057	54	1,718	60	(38)	(37)
Own online business	221	11	151	5	47	49
Wholesale	603	31	931	32	(35)	(34)
Licenses	64	3	84	3	(23)	(23)
Total	**1,946**	**100**	**2,884**	**100**	**(33)**	**(31)**

[1] (32%) on a comp store basis.

Sales in the Group’s **own retail business** (including freestanding retail stores, shop-in-shops, outlets and online stores) declined by 30% in fiscal year 2020, adjusted for currency effects. On a comp store basis (i.e. taking into account all retail spaces opened or taken over before December 31, 2018 and excluding stores renovated in 2019 or 2020), currency-adjusted own retail sales came in 32% below the prior-year level. This is mainly attributable to temporary store closures in the wake of the pandemic, which significantly burdened sales development in brick-and-mortar retail in 2020. On the other hand, the Group’s **own online business**, which includes the own online store hugoboss.com as well as self-managed offerings on important partner websites (concession model), was able to accelerate further in fiscal year 2020, posting significant double-digit growth for the third consecutive year. Overall, own online sale were up 49% on the prior-year level, totaling EUR 221 million in 2020 (2019: EUR 151 million). This performance is based on a strong improvement in traffic and conversion rates. In addition, the successful roll-out of hugoboss.com to 32 additional markets contributed to the sales increase. The share of own online sales in Group sales increased to 11% in fiscal year 2020 (2019: 5%). Overall, the share of the Company’s own retail business in Group sales remained virtually unchanged at 66% (2019: 65%).

In its **wholesale business**, HUGO BOSS recorded a currency-adjusted sales decline of 34% in 2020. A generally cautious order behavior in the wake of the pandemic led to lower deliveries to partners, particularly in Europe and in the U.S. market. Besides that, the expansion of the online concession business in 2019 led to a shift in sales from wholesale to own retail. Following a change in the basis of consolidation, the sales of six stores in the United Arab Emirates are also attributed to retail sales starting in January 1, 2020. Compared with the prior year, this also led to a slight shift in sales from wholesale to own retail. Consequently, the share of the Company’s wholesale business in Group sales declined slightly from 32% to 31% in 2020.

The economic consequences of the pandemic also weighed on sales in the **license business**. In particular, a decline in sales generated with fragrances, watches, and eyewear, reflecting a softer travel retail business, weighed on the performance. The share of the license business in Group sales remained stable at 3% compared to the prior year.

Sales by brand

Sales by brand (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %	Currency-adjusted change in %
BOSS	1,661	85	2,488	86	(33)	(32)
HUGO	285	15	396	14	(28)	(27)
Total	**1,946**	**100**	**2,884**	**100**	**(33)**	**(31)**

The negative implications of the pandemic weighed on sales of both brands in fiscal year 2020. While **BOSS** recorded low to mid-double-digit percentage declines in sales across all wearing occasions, the decline in casual- and athleisurewear was less pronounced than in formalwear. Also for **HUGO**, casualwear proved to be more robust than formalwear.

Sales by gender

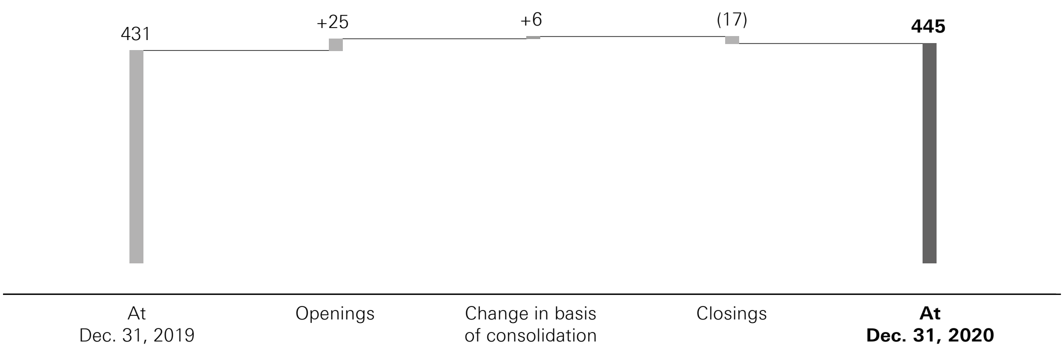
Sales by gender (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %	Currency-adjusted change in %
Menswear	1,759	90	2,609	90	(33)	(31)
Womenswear	187	10	275	10	(32)	(31)
Total	**1,946**	**100**	**2,884**	**100**	**(33)**	**(31)**

In fiscal year 2020, both **menswear** and **womenswear** recorded double-digit sales declines. A clear trend in favor of casual- and athleisurewear was also visible here.

Network of own retail stores

Number of own freestanding retail stores



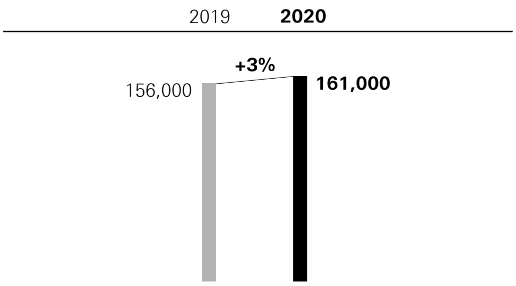
In fiscal year 2020, the number of own **freestanding retail stores** increased by a net figure of 14 to 445 (2019: 431). 2020 saw the opening of 24 BOSS stores, mainly in Asia and Europe, as well as one HUGO store in Moscow. In addition, five BOSS stores and one HUGO store in the United Arab Emirates were added to the Group's own store network following a change in the basis of consolidation. On the other hand, 17 stores were closed globally in light of expiring leases.

Number of own retail stores by region

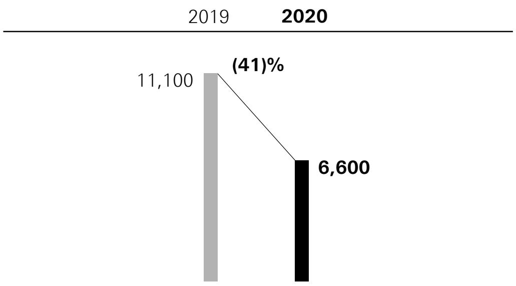
2020	Freestanding stores	Shop-in-shops	Outlets	Total
Europe	212	302	75	**589**
Americas	92	105	54	**251**
Asia/Pacific	141	105	71	**317**
Total	**445**	**512**	**200**	**1,157**
2019				
Europe	203	311	70	**584**
Americas	94	84	50	**228**
Asia/Pacific	134	109	58	**301**
Total	**431**	**504**	**178**	**1,113**

Including shop-in-shops and outlets, the total number of **retail stores** operated by HUGO BOSS globally increased slightly as of December 31, 2020 to 1,157 (2019: 1,113). Besides the higher number of freestanding retail stores, this development also reflects a slight increase in the number of outlets, mainly in the Asia/Pacific region. The latter is primarily intended to support the Group's expansion in the strategic growth market of mainland China.

Total selling space as of December 31
(in square meter)



Retail sales productivity
(in EUR per square meter)



The **total selling space** of the Group's own retail business increased 3% and amounted to around 161,000 sqm at the end of the year (December 31, 2019: 156,000 sqm). The slight increase is related to selective new openings in the past fiscal year, including the addition of six new stores in the United Arab Emirates. The decrease in brick-and-mortar sales led to a decline in **retail sales productivity** to around EUR 6,600 per square meter (2019: EUR 11,100 per sqm).

Income statement

Income statement (in EUR million)

	Jan.–Dec. 2020	Jan.–Dec. 2019	Change in %
Sales	**1,946**	**2,884**	**(33)**
Cost of sales	(759)	(1,009)	25
Gross profit	**1,187**	**1,875**	**(37)**
In % of sales	61.0	65.0	(400) bp
Operating expenses	**(1,423)**	**(1,531)**	**7**
In % of sales	(73.1)	(53.1)	(2,000) bp
Thereof selling and distribution expenses	(1,138)	(1,235)	8
Thereof impairment charges[1]	(110)	(10)	< (100)
Thereof administration expenses	(285)	(296)	4
Operating result (EBIT)	**(236)**	**344**	**< (100)**
In % of sales	(12.1)	11.9	(2,410) bp
Financial result	(38)	(39)	3
Earnings before taxes	**(273)**	**306**	**< (100)**
Income taxes	54	(100)	> 100
Net income	**(219)**	**205**	**< (100)**
Earnings per share (in EUR)[2]	**(3.18)**	**2.97**	**< (100)**
Income tax rate in %	**20**	**33**	

[1] Non-cash impairments on non-current assets related to the negative impact of COVID-19 on the Group's own retail business.
[2] Basic and diluted earnings per share.

At 61.0%, the **gross profit margin** was 400 basis points below the prior-year level (2019: 65.0%). The decrease was mainly driven by a market environment characterized by increased markdown activity as a result of the pandemic, in particular in Europe and the U.S. In addition, inventory valuation effects predominately relating to the Spring/Summer 2020 collection contributed to the decline in gross profit margin. The sale of this collection was significantly affected by the COVID-19 pandemic and the corresponding temporary store closures. → **Notes to the Consolidated Financial Statements, Note 12**

Operating expenses decreased by a total of 7% in fiscal year 2020. Non-cash impairments of non-current assets of EUR 110 million weighed on selling and distribution expenses (2019: EUR 10 million). These were directly related to the negative implications of the pandemic on the Group's retail business, primarily relating to impairments for fixed store assets in the amount of EUR 69 million and right-of-use assets in the amount of EUR 37 million. Excluding those impairment charges, the underlying operating expenses declined by 14% to EUR 1,313 million (2019 excluding impairment charges: EUR 1,521 million). This development reflects the early implementation and execution of comprehensive measures to reduce costs, particularly visible in selling and distribution expenses.

Selling and distribution expenses decreased by a total of 8% in fiscal year 2020. Excluding impairments of non-current assets, underlying selling and distribution expenses even declined by 16% to EUR 1,028 million (2019 excluding impairment charges: EUR 1,224 million). This primarily reflects the comprehensive cost-saving measures that HUGO BOSS successfully implemented in the course of the pandemic. In particular, the Company succeeded in significantly reducing rental and payroll expenses in own retail. In addition, **marketing expenses** were reduced by 12%. In fiscal year 2020, **logistics expenses** came in 9% below the prior-year level. → **Notes to the Consolidated Financial Statements, Note 2**

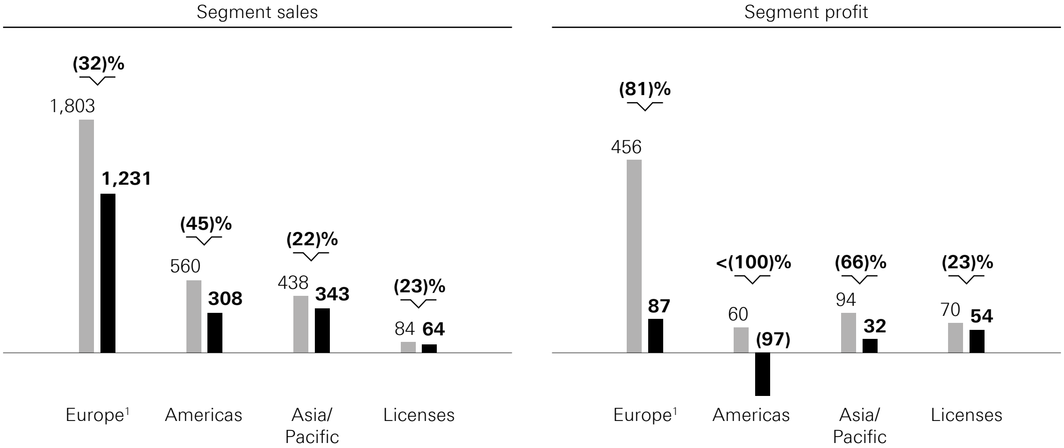
Administration expenses in 2020 were also lower than in the prior year. The decrease of 4% was primarily driven by the positive impact of cost-saving measures, which were mainly related to reducing payroll as well as eliminating non-business-critical expenses. In this context, **general administration expenses** decreased by 2% to EUR 227 million (2019: EUR 231 million). Expenses for **research and development** incurred in light of the collection development came in 11% below the prior-year level, hence amounting to EUR 58 million (2019: EUR 65 million). → **Notes to the Consolidated Financial Statements, Note 3,** → **Research & Development**

The significant decline in sales as well as the lower gross profit margin inevitably weighed on the Group's **operating result (EBIT)**. While EBIT in fiscal year 2020 totaled minus EUR 236 million (2019: plus EUR 344 million), this also reflects non-cash impairments of non-current assets. Excluding those impairment charges, EBIT amounted to EUR minus 126 million (2019 excluding impairment charges: plus EUR 355 million). The comprehensive expense-reduction measures implemented by HUGO BOSS at an early stage partially compensated for the decline in earnings. Consequently, the **EBIT margin** amounted to minus 12.1% in 2020 (2019: plus 11.9%). Excluding impairment charges, the EBIT margin was minus 6.5% (2019 excluding impairment charges: plus 12.3%). At EUR 465 million, **depreciation and amortization** was significantly above the prior-year level (2019: EUR 362 million). Excluding the impairment charges, however, depreciation and amortization increased only slightly to EUR 355 million (2019 excluding impairment charges: EUR 352 million). → **Financial Position, Capital Expenditure**

At minus EUR 38 million, the **financial result (net financial expenses)** was only slightly below the prior-year level (2019: minus EUR 39 million). The relief from **income tax** in the amount of EUR 54 million relates to the recognition of deferred taxes on the losses incurred in 2020 (2019: income tax expense of EUR 100 million). The **Group tax rate** amounted to 20%, mainly reflecting a varying regional development of the profit/loss shares as well as a non-recognition of deferred taxes at subsidiaries with a loss history (2019: 33% reflecting the tax field audit at HUGO BOSS AG). Consequently, the **Group's net income** amounted to minus EUR 219 million (2019: EUR 205 million). Excluding the impairments of non-current assets, net income totaled minus EUR 131 million (2019 excluding impairment charges: plus EUR 212 million). → **Notes to the Consolidated Financial Statements, Note 4 and 5**

Sales and earnings development of the business segments

Development of segment sales and segment profit
(in EUR million)



[1] Including Middle East and Africa. 2019 **2020**

Europe

Currency-adjusted sales in **Europe**, including the Middle East and Africa, were down 31% in 2020. The COVID-19 pandemic and the corresponding temporary store closures weighed strongly on the region's overall sales development, especially during the second and fourth quarter. The decline in international tourism in the wake of the pandemic put an additional strain on regional sales. On a comp store and currency-adjusted basis, the own retail business recorded a sales decline in the low to mid-double-digit percentage range.

Sales development Europe (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %	Currency-adjusted change in %
Own retail business	728	59	1,070	59	(32)	(31)
Wholesale	503	41	733	41	(31)	(31)
Total	**1,231**	**100**	**1,803**	**100**	**(32)**	**(31)**

All core markets in Europe, including **Germany, Great Britain, France** and the **Benelux countries**, recorded sales declines in the low to mid-double-digit percentage range. Overall, the sales development in own retail in Europe was in line with that in wholesale. The latter was particularly affected by lower deliveries to partners during the pandemic. In addition, the expansion of the online concession model in 2019 led to a shift in sales from wholesale to own retail.

At EUR 87 million, **segment profit** in Europe was well below the prior-year level (2019: EUR 456 million). This corresponds to an EBIT margin of 7.1% (2019: 25.3%). Non-cash impairment charges of EUR 50 million weighed on segment earnings (2019: EUR 7 million). Excluding these impairment charges, EBIT totaled EUR 137 million (2019 excluding impairment charges: EUR 463 million), as significant cost savings were able to partially offset the decline in sales as well as negative inventory valuation effects and increased markdown activity. Accordingly, the EBIT margin excluding impairment charges amounted to 11.1% (2019 excluding impairment charges: 25.7%). → **Notes to the Consolidated Financial Statements, Note 24**

Americas

The far-reaching implications of the pandemic were also clearly felt in **the Americas** region. In particular, the temporary closure of the majority of retail stores as well as significantly lower tourist flows, burdened the regional sales development. Consequently, currency-adjusted sales were down by 42% in fiscal year 2020. On a comp store and currency-adjusted basis, the own retail business recorded a sales decline in the low to mid-double-digit percentage range.

Sales development Americas (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %	Currency-adjusted change in %
Own retail business	229	75	398	71	(42)	(39)
Wholesale	78	26	162	29	(52)	(50)
Total	**308**	**100**	**560**	**100**	**(45)**	**(42)**

Besides the negative implications of the pandemic, unrest and demonstrations towards the middle of the year also had a negative impact on business in the **U.S.** – by far the most important market in the region. While sales in **Canada** developed broadly in line with those in the U.S., the decline in **Latin America** was significantly lower, with own retail sales developing relatively robust. Overall, the decline in sales in the Americas region was less pronounced in own retail than in wholesale. The economic consequences of the pandemic led to significantly lower deliveries to partners in this context.

Segment profit in the Americas amounted to minus EUR 97 million in the reporting period and was thus well below the prior-year level (2019: plus EUR 60 million). This corresponds to an EBIT margin of minus 31.6% (2019: plus 10.8%). Also in this region, non-cash impairment charges of EUR 36 million had a negative impact on earnings (2019: EUR 2 million). Excluding those charges, EBIT amounted to minus EUR 61 million (2019 excluding impairment charges: EUR 63 million). Lower operating expenses were only partly able to offset the decline in sales as well negative inventory valuation effects and higher markdown activity. This corresponds to an EBIT margin of minus 19.7%, excluding impairment charges (2019 excluding impairment charges: plus 11.2%). → **Notes to the Consolidated Financial Statements, Note 24**

Asia/Pacific

After a very encouraging start to 2020, the retail environment in the **Asia/Pacific** region deteriorated sharply towards the end of January, as the region was hit first by the pandemic and related temporary store closures. While mainland China was able to return to growth swiftly, other markets in the region experienced a comparably slower recovery. Overall, the region recorded a currency-adjusted sales decline of 20% in 2020. On a comp store and currency-adjusted basis, the own retail business recorded a sales decline in the low double-digit percentage range.

Sales development Asia/Pacific (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %	Currency-adjusted change in %
Own retail business	321	94	402	92	(20)	(19)
Wholesale	21	6	36	8	(41)	(39)
Total	**343**	**100**	**438**	**100**	**(22)**	**(20)**

Following the lockdown in the first quarter, business in **mainland China** – a strategically important market for HUGO BOSS – had already recovered noticeably from the end of March and finally returned to double-digit growth in June. Significantly higher conversion rates in brick-and-mortar retail as well as strong double-digit growth in the own online business contributed positively to sales growth in this market. Growth was further fueled by a repatriation of local demand in China. Overall, sales in Mainland China were 5% above the prior-year level, whereas other markets in the region, including **Japan, Oceania and South-East Asia**, recorded double-digit sales declines in 2020. Business in Hong Kong and Macau also suffered from significantly lower tourist flows.

Segment profit in the Asia/Pacific region amounted to EUR 32 million in fiscal year 2020 (2019: EUR 94 million). This corresponds to an EBIT margin of 9.3% (2019: 21.4%). Excluding non-cash impairment charges of EUR 23 million (2019: EUR 1 million), EBIT amounted to EUR 55 million (2019 excluding impairment charges: EUR 94 million), representing an EBIT margin of plus 16.2% (2019 excluding impairment charges: 21.6%). Also in this region, significant cost savings positively impacted the earnings development in the reporting period. → **Notes to the Consolidated Financial Statements, Note 24**

Licenses

The **license business** was also negatively impacted by the economic consequences of the pandemic, in particular due to a weak travel retail business. As a consequence, currency-adjusted sales in fiscal year 2020 came in 23% below the prior-year level. → **Earnings Development, Sales by Distribution Channel**

As a result of the sales decline, the **license segment profit** decreased by 23% to EUR 54 million (2019: EUR 70 million).

NET ASSETS

- **Decline in assets reflects impairments of non-current assets**
- **Inventories adjusted for currency effects slightly below the prior-year level**
- **Increase in trade net working capital as a percentage of sales**

Total assets decreased by 11% year-on-year to EUR 2,570 million at year-end (December 31, 2019: EUR 2,877 million). This development was mainly driven by impairments on store assets and on right-of-use assets directly related to the negative implications of COVID-19 on the Group's own retail business. In addition, lower trade receivables reflecting the decline in wholesale sales contributed to the decrease in total assets. → **Notes to the Consolidated Financial Statements, Note 10 and 13**

Statement of financial position as of December 31 (in %)

Assets	2020	2019
Property, plant and equipment, intangible assets and right-of-use assets	51	55
Inventories	24	22
Trade receivables	7	8
Other assets	13	11
Cash and cash equivalents	5	5
(in EUR million)	2,570	2,877

2019	2020	Equity and liabilities
35	30	Shareholders' equity
7	9	Provisions and deferred taxes
11	12	Trade payables
7	5	Other liabilities
8	11	Financial liabilities
33	34	Lease liabilities
2,877	2,570	

The **share of non-current assets** decreased slightly to 59% as of December 31, 2020 (December 31, 2019: 60%), primarily reflecting lower fixed assets. Accordingly, the **share of current assets** stood at 41% at the end of the year (December 31, 2019: 40%). The **equity ratio** amounted to 30% by year-end (December 31, 2019: 35%). → **Consolidated Financial Statements, Consolidated Statement of Financial Position**

Trade net working capital as of December 31 (in EUR million)

	2020	2019	Change in %	Currency-adjusted change in %
Inventories	618	627	(1)	2
Trade receivables	172	216	(20)	(18)
Trade payables	299	315	(5)	(4)
Trade net working capital	**491**	**528**	**(7)**	**(2)**

At the end of the year, currency-adjusted **inventories** were 2% above the prior-year level. The write-down of inventories for the Spring/Summer 2020 collection as well as the successful execution of the Group's measures to significantly reduce the merchandise inflow had a positive impact on the development of inventories. The significantly lower **trade receivables** compared to the prior year mainly reflect the decline in wholesale sales. **Trade payables** were also slightly below the prior-year level at the end of the fiscal year. Overall, **trade net working capital (TNWC)** declined by 2%, currency-adjusted. The moving average of **trade net working capital as a percentage of sales** based on the last four quarters was 28.7% and therefore significantly above the prior-year level (2019: 20.1%), primarily reflecting the sales decline in 2020.

Other assets were 7% above the prior-year level, hence amounting to EUR 333 million (2019: EUR 310 million). This development was mainly driven by an increase in deferred tax assets on the losses incurred in fiscal year 2020. **Provisions and deferred tax liabilities** increased 17% to EUR 222 million, primarily reflecting higher return provisions as well as a slight increase in pension provisions (2019: EUR 190 million). **Other liabilities** decreased 25% to EUR 147 million, mainly driven by lower income tax liabilities (2019: EUR 196 million). → **Notes to the Consolidated Financial Statements, Note 11, 17 and 19**

The total of **current and non-current lease liabilities** declined by 10% to EUR 862 million (December 31, 2019: EUR 957 million). This development is directly related to the lower right-of-use assets as compared to the prior year. At the end of the year, **current and non-current financial liabilities** were up 29% on the prior-year level, totaling EUR 281 million (December 31, 2019: EUR 218 million). The increase mainly reflects a higher utilization of the syndicated loan at the reporting date as compared to the prior year. → **Notes to the Consolidated Financial Statements, Note 9 and 20**

FINANCIAL POSITION

- **Successful execution of comprehensive measures to secure financial stability**
- **Significantly positive free cash flow generation in 2020**
- **Increase of syndicated loan and additional credit lines ensure financial flexibility**

Principles and goals of financial management

Group-wide financial management is controlled centrally by the Group's Treasury department. The goals pursued include securing financial stability and flexibility, ensuring Group-wide liquidity and managing financial risks. Group-wide financial management comprises Group financing, cash and liquidity management, the management of market price risks and the management of counterparty risks. **Treasury principles** which are applied Group-wide govern all matters relevant to treasury, such as the approval of banking relationships, the handling of financing agreements, liquidity and asset management as well as the management of currency and interest rate risks.

Within **Group financing** factors such as market capacity, cost of financing, covenants and terms to maturity are taken into account when selecting financial instruments. External loans for Group financing are taken out centrally and primarily in the Group's reporting currency (euro) within the framework of an **"inhouse bank" concept**. To cover the financing needs of the Group companies, funds are made available in the form of intercompany loans. This allows the Company to increase economies of scale and to minimize the cost of capital. Occasionally, credit lines are also agreed with local banks in order to comply with legal, tax or other framework conditions. The Group's financial liabilities are generally unsecured and may be subject to customary market obligations, which are reviewed on a quarterly basis.

The most important source of liquidity for the Group is the cash inflow from its operating activities. The Group's central Treasury department optimizes and centralizes payment flows through its **cash and liquidity management**. Generally, Group companies transfer excess liquidity to the "inhouse bank", e.g., as part of a cash-pooling procedure. In doing so, excess liquidity of individual Group companies can be used to cover the financial needs of others. This intercompany financial offsetting system reduces the external financial requirement and thus brings down net interest expenses.

Management of market price risks is intended to limit the impact of interest and currency risks on cash flow. The use of hedging instruments, including forward foreign exchange transactions, currency swaps and interest swaps, is intended to secure the Group against unfavorable price developments.
→ **Risk Report, Material Financial Risks**

The **counterparty risk** with regards to banks mainly results from the investment of liquid funds as part of cash and liquidity management and from the use of derivative financial instruments as part of interest rate and currency management. With regards to trading transactions, the Group aims for the broadest possible distribution of volumes and ensures that financial instruments are generally only contracted with counterparties that have very good credit ratings.

Capital structure and financing

HUGO BOSS has secured its financial flexibility by means of a revolving **syndicated loan** with a term up to September 30, 2022. The syndicated loan agreement contains a standard covenant requiring the maintenance of **financial leverage**, defined as the ratio of net financial liabilities to EBITDA. The determination of financial leverage originally specified in the syndicated loan agreement and the level to be observed excludes the impact of any changes in accounting standards on the indicator. Thus, it remains unaffected by the impact of IFRS 16, which applies from 2019 onwards, on net financial liabilities and EBITDA.

In fiscal year 2020, HUGO BOSS exercised the option to increase its revolving syndicated loan to EUR 633 million in order to ensure additional **financial flexibility during the COVID-19 pandemic** (December 31, 2019: EUR 450 million). At the same time, HUGO BOSS has reached an agreement to suspend its covenants with its financing banks until June 30, 2021. In light of the Group's anticipated sales and earnings development in fiscal year 2021, HUGO BOSS currently expects financial leverage in the second half of 2021 to be substantially below the permissible maximum. At the end of the fiscal year 2020, EUR 105 million of the syndicated loan had been drawn (December 31, 2019: EUR 0 million). In addition, the Group has **bilateral credit lines** at its disposal with a total volume of EUR 198 million (December 31, 2019: EUR 337 million), of which EUR 161 million had been drawn at the end of the reporting period (December 31, 2019: EUR 215 million). HUGO BOSS also secured **further loan commitments** totaling EUR 275 million in fiscal year 2020. These are provided by six international banks and are partially backed by KfW, Germany's state-owned development bank. At the end of the reporting period, these credit facilities were not drawn. Any loans claimed up to the end of the drawdown period on June 9, 2021 would be due on June 30, 2022. In addition, the Group had at its disposal **cash and cash equivalents** in the amount of EUR 125 million as of December 31, 2020 (December 31, 2019: EUR 133 million). **→ Notes to the Consolidated Financial Statements, Note 15, → Financial Position, Statement of Cash Flows and Free Cash Flow**

The Group's **liabilities** totaled EUR 1,811 million at the end of the fiscal year (December 31, 2019: EUR 1,876 million). This corresponds to a 70% share of total assets (December 31, 2019: share of 65%). This includes EUR 862 million attributable to **current and non-current lease liabilities** (December 31, 2019: EUR 957 million), primarily relating to the rental of retail stores as well as logistics and administration properties. **Current and non-current financial liabilities** totaled EUR 281 million at the end of the fiscal year (December 31, 2019: EUR 218 million). **→ Net Assets, → Notes to the Consolidated Financial Statements, Note 9 and 20**

Statement of cash flows and free cash flow

At an early stage of the COVID-19 pandemic, HUGO BOSS initiated comprehensive measures with a total volume of at least EUR 600 million aimed at **protecting cash flow**. These measures were successfully executed over the course of the year.

Measures to protect financial stability and flexibility in fiscal year 2020

1	2	3	4
Reduction of operating expenses	Postponement of investments	Reduction of merchandise inflow	Retention of net profit

In particular, HUGO BOSS was able to **significantly reduce its operating expenses**. In this context, the Company has taken measures to adapt working hours for its global staff, thereby accounting for the respective pandemic conditions and taking into account applicable legal conditions. HUGO BOSS also significantly reduced sales and distribution expenses, in particular in own retail. Moreover, the Company has **postponed all non-business-critical investments**. In particular, planned renovations and openings of new retail stores were suspended until further notice where possible. HUGO BOSS was also able to achieve a **significant reduction of merchandise inflow** in close cooperation with its suppliers, particularly in the second half of the year. At the same time, the Company has adjusted its own production level to account for the currently lower demand. In addition, HUGO BOSS had suspended the dividend payment for fiscal year 2019, with the exception of the legal minimum dividend of EUR 0.04 per share, in order to further secure financial stability. By **retaining the net profit**, the Company has also strengthened its internal financing capability.

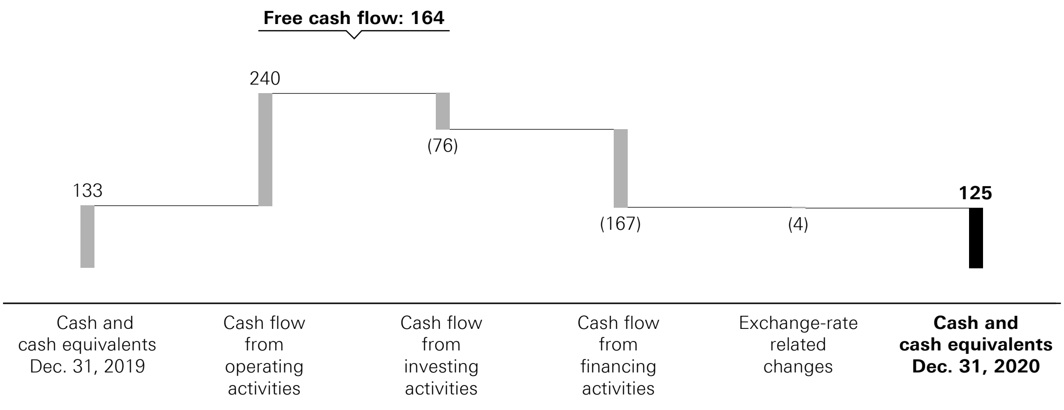
Statement of cash flows (in EUR million)

	2020	2019
Cash flow from operating activities	240	652
Cash flow from investing activities	(76)	(195)
Cash flow from financing activities	(167)	(472)
Change in cash and cash equivalents	**(7)**	**(14)**
Cash and cash equivalents at the beginning of the period	133	147
Cash and cash equivalents at the end of the period	125	133

As the statement of cash flows is presented on a currency-adjusted basis, the values cannot be derived from the statement of financial position.

Free cash flow, measured as the total of cash flow from operating activities and cash flow from investing activities, amounted to EUR 164 million in fiscal year 2020 and was thus 64% below the prior-year level (2019: EUR 457 million).

Change in cash and cash equivalents (in EUR million)



At EUR 240 million, the **cash inflow from operating activities** was 63% below the prior-year level (2019: EUR 652 million). This development was mainly driven by the decline in sales and earnings in fiscal year 2020. However, the successful execution of the Group´s comprehensive measures to protect cash flow, enabled HUGO BOSS to significantly cushion the decline. The postponement of non-business-critical investments also led to a significant decline in **cash outflow from investing activities** of 61% to EUR 76 million in 2020 (2019: EUR 195 million). → **Financial Position, Capital Expenditure**

Cash outflow from financing activities totaled EUR 167 million, thus 65% below the prior-year level (2019: EUR 472 million). The decrease reflects the lower dividend payment for fiscal year 2019 as well as a higher utilization of the Group's credit lines as compared to the prior year.

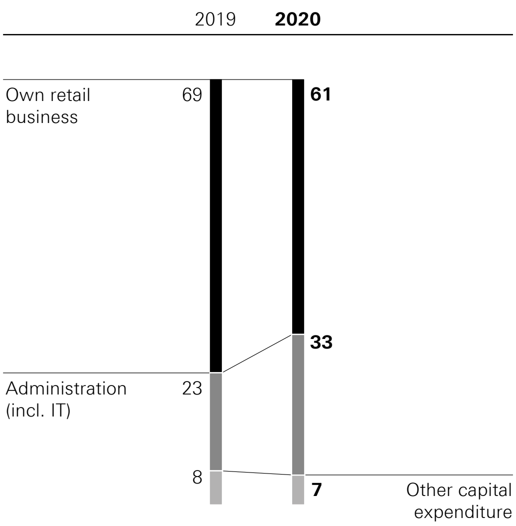
Net financial liabilities

Net financial liabilities, measured as the total of all financial and lease liabilities less cash and cash equivalents, decreased slightly to EUR 1,004 million at the end of fiscal year 2020 (December 31, 2019: EUR 1,040 million). Lower lease liabilities and the successful execution of measures to secure cash flow more than compensated for the higher utilization of the syndicated loan. Excluding the **impact of IFRS 16**, net financial liabilities amounted to EUR 141 million (2019 excluding the effects of IFRS 16: EUR 83 million). → **Net Assets,** → **Notes to the Consolidated Financial Statements, Note 9**

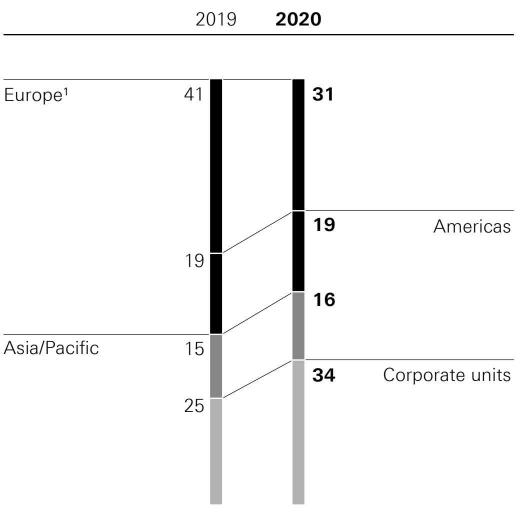
Capital expenditure

In order to secure free cash flow during the pandemic, HUGO BOSS had adjusted its capital expenditure budget at an early stage, postponing all non-business-critical investments. At EUR 80 million, investments in **property, plant and equipment and intangible assets** in 2020 therefore came in well below the prior-year level (2019: EUR 192 million).

Capital expenditure by functional area (in %)



Capital expenditure by region (in %)



[1] Including Middle East and Africa.

With capital expenditure of EUR 48 million, the focus of investment activity was again on the own retail network (2019: EUR 134 million). Investments in the continuous **optimization and modernization** of existing locations totaled EUR 27 million (2019: EUR 77 million) and include, for example, the relocation of the important BOSS store in New York's SoHo district. At the same time, EUR 21 million was invested in selectively **opening new retail stores** (2019: EUR 56 million), with a strong focus on the strategic growth market of mainland China.

Capital expenditure on **administration** came to EUR 26 million in 2020 (2019: EUR 44 million). This mainly includes investments of EUR 22 million in the **IT infrastructure** (2019: EUR 34 million). In addition to further digitizing essential operational processes, HUGO BOSS also invested in the global expansion of its own online business. **Other capital expenditure** on the Company's production, logistics and distribution capabilities and on research and development amounted to EUR 5 million in 2020 (2019: EUR 15 million).

Accumulated depreciation and amortization on property, plant and equipment and intangible assets, including own capitalized cost, totaled EUR 1,067 million in fiscal year 2020 (2019: EUR 993 million). Existing **obligations from investment projects** totaled EUR 2 million as at December 31, 2020 (December 31, 2019: EUR 0 million). → **Notes to the Consolidated Financial Statements, Note 8**

HUGO BOSS AG

- **HUGO BOSS AG is the parent company of the HUGO BOSS Group**
- **Service agreements with subsidiaries impact operational development**
- **Statements regarding risks, opportunities and outlook for the HUGO BOSS Group also apply to HUGO BOSS AG**

HUGO BOSS AG is the **parent company of the HUGO BOSS Group**. Its annual financial statements are prepared in accordance with the rules set out in the HGB ["Handelsgesetzbuch": German Commercial Code]. In addition to the operating business, the results of HUGO BOSS AG are predominately impacted by the management of the central functions. Material items in this regard are the allocation of costs for services rendered to Group companies and the investment income resulting from its holding function. Due to its close relationships with the Group companies and its relevance for the Group, the **expectations** for HUGO BOSS AG are largely reflected in the Group's outlook. In addition, business development of HUGO BOSS AG is, to a large degree, also subject to the same **risks and opportunities** as those applicable to the Group. Therefore, statements with regards to the Group's outlook as well as within the Group's Report on Risks and Opportunities also apply to HUGO BOSS AG. → **Outlook**, → **Report on Risks and Opportunities**

Earnings development

Income statement HUGO BOSS AG (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %
Sales	**894**	**100.0**	**1,316**	**100.0**	**(32)**
Cost of sales	(720)	(80.5)	(874)	(66.5)	(18)
Gross profit	**174**	**19.5**	**441**	**33.5**	**(61)**
Distribution expenses	(212)	(23.7)	(290)	(22.1)	27
General administrative expenses	(93)	(10.4)	(130)	(9.9)	(28)
Other operating income	40	4.4	96	7.3	(59)
Other operating expenses	(66)	(7.4)	(66)	(5.0)	0
Operating result	**(157)**	**(17.6)**	**51**	**3.9**	**< (100)**
Income from investments in affiliated companies	41	4.6	202	15.4	(80)
Net interest income/expenses	(13)	(1.5)	(13)	(1.0)	1
Depreciation of financial assets and securities held as current assets	(17)	(1.9)	0	0.0	< (100)
Taxes on income and other taxes	(6)	(0.7)	(71)	(5.4)	(91)
Net income	**(153)**	**(17.1)**	**169**	**12.9**	**< (100)**
Transfer to (–)/from (+) other revenue reserves	0	0.0	21	1.6	(100)
Accumulated income previous year	191	21.3	4	0.3	> 100
Unappropriated income	**38**	**4.3**	**194**	**14.7**	**< (100)**

Sales of HUGO BOSS AG primarily comprise external sales with wholesale partners in Germany and Austria, sales of the own retail business in Germany and Austria as well as intercompany sales with international subsidiaries.

Sales by region (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %
Europe	754	84	1,070	81	(29)
Americas	44	5	139	11	(69)
Asia/Pacific	95	11	107	8	(11)
Total	**894**	**100**	**1,316**	**100**	**(32)**

In light of the implications of the COVID-19 pandemic, **sales with subsidiaries** in Europe, the Americas and Asia/Pacific were significantly below the prior-year level. **Sales with third parties** in Europe declined by 32% last fiscal year, to EUR 328 million (2019: EUR 482 million). In **Germany**, HUGO BOSS AG generated sales of EUR 276 million in fiscal year 2020, primarily reflecting a significant decline in light of the negative implications of the pandemic (2019: EUR 407 million). In particular, temporary store closures in the wake of lockdowns, as well as large-scale restrictions on public life including extensive social distancing measures put a strain on the business.

Sales by brand (in EUR million)

	2020	**In % of sales**	2019	In % of sales	Change in %
BOSS	572	64	972	74	(41)
HUGO	167	19	219	17	(24)
Other services	155	17	125	10	24
Total	**894**	**100**	**1,316**	**100**	**(32)**

While the impact of the pandemic negatively affected the sales development of the **BOSS** and **HUGO** brands, the Company recorded an increase in **sales from other services**. This development reflects higher intercompany charges to subsidiaries, in particular in connection with IT and marketing services.

Gross profit was well below the prior-year level. In addition to the decline in sales, higher markdown activity and negative effects from inventory valuation also weighed on gross profit development. The latter mainly related to the spring/summer 2020 collection, the sale of which was significantly affected by the COVID-19 pandemic and the corresponding temporary store closures. The decrease in **distribution expenses** mainly reflects the successful execution of measures to reduce operating expenses in 2020. In addition to a reduction in expenses in the Group’s own retail business, this also includes lower marketing expenses. Furthermore, higher income from charging costs and services to subsidiaries contributed to the decrease in distribution expenses. The decline in **general administration expenses** relates to a reduction in staff costs and the elimination of non-business-critical expenses. The decrease in **other operating income** compared to the prior year was largely due to lower income from charging costs and services to affiliated companies. **Other operating expenses** remained at the prior-year level and mainly included research and development costs as well as allowances for doubtful accounts and exchange rate effects.

At EUR 41 million, the **income from investments in affiliated companies** in 2020 was significantly lower than in the prior year (2019: EUR 202 million). As in the prior year, income from affiliates at EUR 41 million (2019: EUR 121 million) primarily reflects the annual profits of HUGO BOSS Trade Mark Management GmbH & Co. KG, which are credited to the loan account of its limited partner HUGO BOSS AG in accordance with company regulations, as well as the dividend payments of HUGO BOSS Textile Industry Ltd. There was no income from profit and loss transfer agreements with subsidiaries in fiscal year 2020 (2019: EUR 81 million). The income in the prior year was the result of a profit distribution by HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen, which had received dividend income from HUGO BOSS Holding Netherlands B.V. in fiscal year 2019.

Net assets and financial position

Property, plant and equipment and intangible assets decreased by 4% to EUR 974 million (December 31, 2019: EUR 1,014 million), mainly driven by the significant reduction in **investments** as part of the Group's measures to secure its cash flow during the pandemic.

Trade Net Working Capital (in EUR million)

	2020	2019	Change in %
Inventories	176	186	(5)
Trade receivables	12	19	(37)
Trade payables	99	117	(16)
Trade net working capital	**89**	**88**	**2**

Inventories decreased 5%, reflecting the successful implementation of measures to reduce the merchandise inflow in the course of the pandemic. As a result of the decline in wholesale sales in Germany and Austria in fiscal year 2020, **trade receivables** were also significantly below the prior-year level. The Company also recorded a decline in **trade payables**. Consequently, **trade net working capital** of HUGO BOSS AG at the end of 2020 was slightly above the prior-year level.

At EUR 51 million, **receivables from affiliated companies** at the end of fiscal year 2020 were only slightly below the prior-year level (December 31, 2019: EUR 39 million). **Other assets** decreased to EUR 34 million, mainly reflecting an amended agreement with the Company's suppliers regulating the granting of bonuses and quantity discounts (December 31, 2019: EUR 55 million). **Liabilities to affiliated companies** increased to EUR 443 million, mainly driven by adjustments of transfer prices relating to the supply of goods (December 31, 2019: EUR 301 million). **Provisions** fell slightly to EUR 141 million at the end of the year (December 31, 2019: EUR 156 million). At EUR 83 million, **liabilities to credit institutions** were also below the prior-year level (December 31, 2019: EUR 97 million).

As of December 31, 2020, **cash and cash equivalents**, as the total of cash on hand and bank balances, amounted to EUR 1 million (December 31, 2019: EUR 3 million). The lower cash inflow from operating activities was almost entirely compensated by a reduction in cash outflow from investing activities and the suspension of the dividend payment for fiscal year 2019, with the exception of the legal minimum dividend of EUR 0.04 per share.

OUTLOOK

- **Uncertainties surrounding economic and industry outlook remain high in light of the COVID-19 pandemic**
- **Global business of HUGO BOSS continues to be impacted by the pandemic**
- **HUGO BOSS expects noticeable business recovery, in particular in the second half of 2021**

Subsequent events

Between the end of fiscal year 2020 and the date of the preparation of this report on March 5, 2021, the global business of HUGO BOSS continued to be impacted by the **COVID-19 pandemic**. Persisting lockdowns and temporary store closures, in particular in Europe – by far largest region for the Company –, lasting restrictions on public life including comprehensive social distancing measures as well as ongoing international travel restrictions are expected to continue to weigh on the recovery of the overall industry as well as performance of HUGO BOSS, especially in the first half of 2021.

Beyond this development, there were no other material 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 and financial position.

Outlook

The following report presents the **view of the Management** of HUGO BOSS with respect to the Company's future development and describes the expected development of significant macroeconomic and industry-specific conditions. It reflects Management's current knowledge at the time the report was prepared, while also taking into account the fact that, if the risks and opportunities materialize as described in the Risks and Opportunities section, actual developments may differ significantly from this outlook, either positively or negatively. Other than the statutory publication requirements, HUGO BOSS does not assume any obligation to update the statements contained in this report. → **Report on Risks and Opportunities**

Economic and industry-specific developments have a major impact on the development of the Company's operational and financial development. Statements made in this section regarding the Company's expected business performance are therefore based on certain assumptions about developments in the global economy and in the industry. Over the course of the year, the Group will closely monitor the development of these conditions, in order to respond to possible changes as quickly and comprehensively as possible.

Outlook for the global economy
In its publication of January 20, 2021, the IMF expects the **global economy** to recover noticeably in fiscal year 2021 from the recession caused by COVID-19 in fiscal year 2020. Based on the assumption that a vaccine will be widely available in industrialized countries and major emerging markets by the summer of 2021 at the latest, the IMF forecasts economic growth of 5.5% for the current year (2020: minus 3.5%). Growth in the first half of the year is expected to be lower than in the second half due to the persistently high number of infections and the associated restrictions on public life in many major industrialized countries. In the second half of the year, however, the IMF expects a significant recovery, which is expected to be driven by increasing vaccine availability and the return to normal public life globally. It is also expected that additional monetary policy measures in Europe and the U.S. will support this development.

Based on these assumptions, the IMF expects the **Eurozone** to grow by 4.2% (2020: minus 7.2%). Despite persistent uncertainties surrounding Brexit, the economy of **Great Britain** is forecast to grow by 4.5% in 2021 (2020: minus 10.0%). For the **U.S.** economy, the IMF expects growth of 5.1% (2020: minus 3.4%), while growth in **China** is expected to accelerate to 8.1% in 2021 (2020: 2.3%).

Despite these assumptions, the associated **risks and uncertainties** remain high. It is therefore currently very difficult to predict to what extent the further development of the pandemic – for example, with regard to new waves of infection and lockdowns, or possible mutations of the virus – will ultimately affect the global economy over the course of the year. In addition, it is extremely difficult to forecast any progress in the medical treatment of COVID-19, the global availability and efficacy of the vaccines, any improvement in consumer confidence or potential financial market tension and the respective impacts of these factors on the expected economic recovery.

Industry outlook

The high level of uncertainty regarding the further development of the pandemic is also reflected in the industry outlook. In particular, in the first half of 2021, it is likely that the **global apparel industry** will be significantly affected by the negative implications of the pandemic. Also for the **upper premium segment of the apparel industry**, which is the best benchmark for HUGO BOSS, industry sales are expected to suffer, especially in the first six months of the year, from the lockdowns imposed in many important markets and the associated store closures. In addition, the persistently low consumer confidence and ongoing international travel restrictions are expected to have a significant negative impact on global industry sales, especially in the first half of 2021.

A joint study by The Business of Fashion and management consultancy McKinsey & Company published on 1 December 2020 describes different scenarios for the development of the global apparel industry in fiscal year 2021. In a **scenario of relatively rapid recovery**, it is expected that the industry will recover fully from the pandemic by the third quarter of 2022. In this context, a containment of COVID-19 as far as possible as well as state support measures are expected to have a positive impact on industry development already in 2021. Global tourism is forecast to recover noticeably by summer, consumer confidence is expected to return gradually, and larger social events should also be possible in the near future. In this scenario, China is expected to continue leading the recovery, with the apparel industry recording growth of between 5% and 10% over there, as compared to 2019 levels. In the U.S. market, it is expected within this scenario that industry sales will remain 7% to 12% below pre-crisis levels in 2021. Also for Europe, industry sales in 2021 are expected to be 2% to 7% below 2019 levels.

In a **less optimistic scenario**, on the other hand, The Business of Fashion and McKinsey & Company assume that industry sales will reach pre-crisis levels by the end of 2023 at the earliest. Significant delays in global vaccine availability, further lockdowns, and ongoing travel restrictions would continue to significantly negatively impact overall consumer confidence and thus the industry development over the course of the year. In such a scenario, sales in the U.S. apparel industry could fall by 22% to 27% in 2021 compared with 2019, while Europe could see a 14% to 19% decline. Persistent restrictions on public life and widespread travel restrictions would have a particularly negative impact on premium and luxury goods sales. Therefore, a decline in sales in Europe of up to 40% in this segment cannot be ruled out in such a scenario. For the Chinese market, too, risks exist that a renewed outbreak of the pandemic would have a significant negative impact on industry sales in this market.

Outlook for HUGO BOSS

In light of the persisting high degree of uncertainty regarding the further development of the pandemic and the high risk surrounding the expectations on the further development of the global economy and industry, HUGO BOSS, at this point in time, is not in a position to reliably comment on the further recovery of its overall business and, as a consequence, cannot provide a precise outlook on its key performance indicators. At the time of compiling this report, the **global business of HUGO BOSS continues to be impacted by the pandemic**. Persisting lockdowns and temporary store closures, in particular in Europe – by far largest region for the Company –, lasting restrictions on public life including comprehensive social distancing measures as well as ongoing international travel restrictions are expected to continue to weigh on the performance of HUGO BOSS, especially in the first half of 2021. In particular with regard to the Group's own retail business, which usually accounts for two thirds of Group sales, there are high uncertainties with regard to the pace and intensity of the expected business recovery.

Despite the uncertainties outlined above, the Company is confident that the global retail environment will gradually improve over the course of 2021. This is also expected to positively support the recovery of the business of HUGO BOSS, in particular in the second half of the year. For fiscal year 2021, the Company therefore expects that **Group sales** will be significantly above the level of 2020. Also for the **operating result (EBIT)** and the **Group's net income**, the Company forecasts a strong increase as compared to the prior year. Furthermore, HUGO BOSS expects a moderate increase in **capital expenditure** compared with the prior year. The focus of investments is expected to be on the Group's own retail business and the further digitization of its business model. Finally, it is forecast that **trade net working capital as a percentage of sales** will decline moderately in fiscal year 2021.

In light of the very challenging nature of fiscal year 2020 as well as the persisting high uncertainty with regard to the further development of the pandemic, the Managing Board and Supervisory Board of HUGO BOSS intend to propose to the Annual Shareholders' Meeting to only pay the **legal minimum dividend of EUR 0.04 per share** for fiscal year 2020. In doing so, the Company aims at further strengthening its internal financing capability. Nevertheless, HUGO BOSS remains confident that it will continue to generate significantly positive free cash flow in the future on the basis of a general recovery of its business and due to its highly free cash flow generating business model. This, in turn, should enable the Group to return to an attractive dividend policy. → **Group Strategy**

REPORT ON RISKS AND OPPORTUNITIES

- **Transparent handling of risks as part of the risk management system**
- **No risks to the Group as a going concern identified**
- **Utilizing business opportunities an important element in ensuring a sustainable increase in enterprise value**

The **risks and opportunities policy** of HUGO BOSS is primarily aimed at achieving strategic and financial objectives. In addition to pursuing the target of securing the Group's continuation as a going concern, it primarily aims at sustainably increasing its enterprise value. The reporting of risks and opportunities in the combined management report always refers to a one-year period.

Risk report

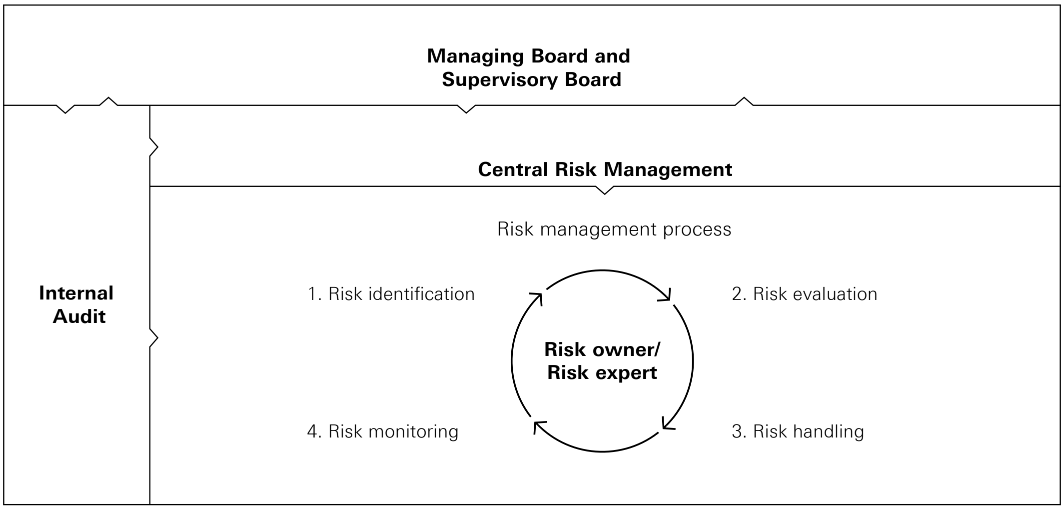
The success of HUGO BOSS is based on the systematic use of opportunities within the framework of the Group's corporate strategy. The Group is exposed to a variety of risks. Its **risk management system** includes all measures of a systematic and transparent approach towards risk. It aims to identify risks at the first possible opportunity, evaluate them adequately, limit or avoid them using suitable measures, monitor them and document them. Risks are defined here as possible future developments or events which may lead to negative deviations from the planned operating result. All types of risk are summarized into five categories: external, strategic, financial, operational and organizational risk.

Risk management system

The Managing Board of HUGO BOSS AG has **overall responsibility for an effective risk management system**. The central task of risk management is to coordinate the implementation and ongoing development of the risk management system. It is responsible for the centrally managed risk management process and is in close contact with the respective central departments and Group companies. There, defined risk experts and risk owners are responsible for identifying and evaluating risk, adequately dealing with risk and implementing effective risk mitigation measures. **Monitoring the effectiveness of the risk management system** is the task of the Supervisory Board of HUGO BOSS AG. This responsibility is exercised by the Audit Committee of the Supervisory Board, also with the involvement of the internal audit department. The proper functioning and appropriateness of the risk management system is also confirmed by the Group auditor.

Group-wide standards for systematically handling risks form the basis of an efficient risk management system. These are set by the Managing Board and documented in a **risk manual** that is applicable throughout the Group and available to all employees on the Company's intranet. All employees of HUGO BOSS are obliged to be aware of the risks posed by their behavior, especially regarding those risks that may threaten the existence of the Group. The use of modern **risk management software** allows for recording and evaluating all identified risks as well as associated measures in a uniform way throughout the Group. The risk management system of HUGO BOSS is designed in accordance with the international standard ISO 31000.

Main features of the HUGO BOSS risk management system



The **risk management process** used at HUGO BOSS consists of the four steps of risk identification, risk evaluation, risk handling and risk monitoring and reporting.

To ensure that **risks are identified** at the earliest possible stage, the Group continuously monitors the macroeconomic environment, the competitive landscape in the premium and luxury goods industry, and all internal processes. The central risk management supports the risk owners across the Group with the regular identification and efficient categorization of risks using a risk catalog as well as the risk manual that is available throughout the Group.

Risk owners delegate the regular assessment of identified risks to the risk experts and give their assessment after a thorough examination. Risk experts are supported by the central risk management.

Measurement criteria for business risks

Likelihood of occurrence		Extent of financial impact	
unlikely	≤ 20%	low	≤ 2,5% of planned EBIT
possible	> 20–40%	moderate	> 2,5–5% of planned EBIT
likely	> 40–60%	significant	> 5–15% of planned EBIT
very likely	> 60%	high	> 15% of planned EBIT

Individual risks are evaluated by assessing their likelihood of occurrence and systematically analyzing their possible impact on the planned operating result (EBIT). Interest rate risks and tax risks however are evaluated based on their possible impact on cash flow.

Risk overview - riskmap (aggregated risks)

Loss amount/exposure	unlikely	possible	likely	very likely
high	**Collection, logistics, IT, personnel**	**Environment and health, investments, taxes, suppliers and sourcing markets, quality, sales and distribution, governance and compliance, politics and society**	**Overall economy**	
significant	**Brand and corporate image**	**Competition**	**Currencies**	
moderate	**Product piracy, facilities, occupational health and safety**	**Legal, financing and liquidity**		
low	**Vision and direction**	**Changes in interest rates**	**Provisions for pensions**	**Counterparties**

Likelihood (within 1 year)

The valuation criteria likelihood of occurrence and loss amount/exposure together form the criteria which make up the **risk matrix**. The latter is intended to create transparency regarding the Company’s current risk situation and support with prioritizing risks. Any net risk as an actual risk potential is defined as the gross risk reduced by the impact of the respective mitigation measures.

Preparing and implementing suitable risk mitigation measures is the responsibility of the risk owners. In general, **risks are managed** in four different ways: risk avoidance, risk reduction, risk transfer to third parties and risk acceptance. One component of risk management is therefore also the transfer of risk to the insurer, whereby the financial implications of insurable risks can be largely neutralized. The costs of the respective measures in relation to their effectiveness are also taken into consideration when deciding how to implement the respective risk management strategy. By working closely together with the risk owners, the central risk management monitors the progress and effectiveness of measures which are in the planning stages as well as those which have already been implemented.

The current status of all identified risks is assessed twice a year. However, depending on their extent, some risks may be assessed at a frequency of up to once a month. As part of the **risk monitoring**, insights into the latest trends are documented, and risk evaluation and risk handling are revised if necessary. The continuous monitoring of early warning indicators is intended to allow possible deviations from the budget to be identified at an early stage. Reporting channels and the adoption of appropriate predefined countermeasures ensure a timely response in the event of a risk occurring. → **Group Management**

As part of the **regular risk reporting**, the risk owners report to the central risk management the risks they have identified, including the respective likelihoods of occurrence, the potential financial impact as well as the risk mitigation measures. They aggregate the information reported and regularly present a consolidated report to the Managing Board and to the Audit Committee. Material individual risks and aggregated risk categories are given particular emphasis here. When critical or urgent issues arise, the regular reporting process is supplemented by an ad hoc report.

Assessment of the risk situation by the Managing Board

Development and composition of total risk exposure

Risk category	Trend	Share of total risk (expected value)
External risks	↘	21%
Strategic risks	→	10%
Financial risks	→	14%
Operative risks	→	48%
Organizational risks	↘	7%

The individual risks are aggregated using two methods to obtain the most accurate possible picture of the **total risk position** of HUGO BOSS. On the one hand, the expected loss values of all assessed risks within the five risk categories are added together. On the other hand, the probability distributions of all identified risks are aggregated to form a single probability distribution for a possible total loss by means of a Monte Carlo simulation and so determine maximum annual loss values. The result of this simulation in fiscal year 2020 shows that, as in the prior year, the Group's equity is in excess of all simulated risk-dependent loss values, even within the tightest confidence intervals.

The risk management system implemented forms the basis of the assessment of the risk situation by the Managing Board and is regularly monitored by it. Material risks faced by the Company are regularly discussed and evaluated by the Managing Board. While the assessment of individual risks in fiscal year 2020 has changed, mainly in the course of the COVID-19 pandemic, the Managing Board **was unable to identify any individual or aggregate risks that could jeopardize the continuation of the Company as a going concern** at the time this report was prepared.

Illustration of material risks

The following sections explain the **risks considered to be material** in terms of HUGO BOSS achieving its objectives in fiscal year 2021. This refers to those risks that have been evaluated in the risk management process as having a potential impact that is at least material. In contrast to the prior year, risks with a moderate potential impact are therefore not discussed in detail. The Company thus takes into account the high levels of uncertainty regarding the expected business performance of HUGO BOSS in light of the COVID-19 pandemic and the resulting increase in sensitivity as a whole in the risk assessment. In many risk areas, this has led to an increase in the calculated financial impact in relation to the planned EBIT compared with the prior year. In addition, to ensure clarity within this report, the focus is on all risks identified with a significant or high financial impact.

In general, it is possible that further latent risks or risks that are currently estimated as immaterial may negatively impact the Group's development in the future to more than the stated extent. Irrespective of the measures introduced to manage the identified risks, entrepreneurial activity is always exposed to **residual risks** that cannot be entirely avoided even by a risk management system such as that implemented at HUGO BOSS.

Risk categories

External risks	Strategic risks	Financial risks	Operative risks	Organizational risks
Overall economy	**Collection**	**Currencies**	**Suppliers and sourcing markets**	**IT**
Politics and society	**Brand and corporate image**	**Taxes**	**Quality**	**Personnel**
Environment and health	**Investments**	Financing and liquidity	**Logistics**	**Governance and compliance**
Competition	Vision and direction	Changes in interest rates	**Sales and distribution**	Legal
Product piracy		Counterparties		Facilities
		Pensions		Occupational health and safety

Material risks are shown in bold and are explained in more detail below. In contrast, risks assessed as only having a low or moderate potential impact are not explained in more detail.

Material external risks

HUGO BOSS is subject to a variety of external risks, mainly in connection with macroeconomic, political and social developments, environmental and health aspects, and competition.

Macroeconomic risks

As a global company, HUGO BOSS is exposed to **macroeconomic risks** in terms of global economic developments. This means that an economic downturn usually results in a decline in demand for premium and luxury goods that may have a negative effect on sales and earnings growth of the Group. The effects of macroeconomic developments can occur globally as well as being limited to one region, and may influence each other.

In order to reduce the impact of economic fluctuations, HUGO BOSS aims at a **balanced regional distribution of sales**. The Group continuously keeps a close eye on macroeconomic developments as well as the industry environment in order to identify risks at an early stage and be able to respond to them quickly. Internal **early indicators** are also analyzed regularly, which makes it possible to forecast the implications of potential macroeconomic risks. → **Group Management**

Some of the possible **reactions** to a cyclical decline in demand include reducing production and sourcing activity, more strictly managing trade net working capital, increasing cost controlling and price adjustments.

In its publication of January 20, 2021, the IMF expects the global economy to recover noticeably in fiscal year 2021 from the recession caused by **COVID-19** in fiscal year 2020. This outlook is mainly based on the assumption that vaccines will be widely available in industrialized countries and major emerging markets by the summer of 2021 at the latest. At the same time, the risks and uncertainties associated with this outlook remain high. For example, it is currently only difficult to predict to what extent the further development of the pandemic – for example, with regard to new waves of infection and lockdowns, or possible mutations of the virus – will ultimately impact the global economy over the course of the year. In addition, it is extremely difficult to predict any progress in the medical treatment of COVID-19, the global availability and efficacy of the vaccines or any improvement in the consumer climate and the respective implications of these factors on the anticipated economic recovery.

The potentially negative impact of economic trends on Group sales and earnings performance may be fundamentally high in fiscal year 2021. Management judges the likelihood of occurrence as likely.
→ **Outlook**, → **Risk Report, Environmental and Health Risks**

Political and social risks

HUGO BOSS is exposed to **political and social risks** as a result of the global nature of its business activities. For example, changes in the political and regulatory environment, geopolitical tensions, military conflicts, changes of government or terrorist attacks can have a negative impact on the consumer climate.

The Group does not expect **global uncertainties** regarding political and social developments to decrease in 2021. For example, geopolitical tensions in the Middle East or Hong Kong, an escalation of trade-policy conflicts such as the one between the U.S. and China, or the continuing threat of terrorist attacks, pose significant risks for the premium and luxury goods industry and thus also for the Group's business performance.

In addition, uncertainties with regard to **Brexit** remain. The Company has responded to the imposition of import duties through moderate price increases as of January 1, 2021. The adjusted pricing structure is intended to ensure the Company's positioning in the upper premium segment in future, and is also geared towards the pricing structure of relevant competitors. In principle, there is a risk that it will not be possible to enforce adjusted prices to the extent intended by the Company in the event of any cyclical decline in demand as a result of Brexit. This would ultimately have a negative impact on the Group's sales and earnings performance. However, Management has assessed the remaining risks associated with Brexit for 2021 as unlikely, while having a significant impact.

Due to the high likelihood that its significance will increase, HUGO BOSS assesses the risk resulting from political and social changes as an **"emerging risk"**. It raises strategic questions, for example regarding the influence of demographic changes on consumer behavior and the supply chain. This reveals the close link between the social risk and the industry risk and the risks associated with the suppliers and sourcing markets. In evaluating and managing the risk, risk experts and risk owners work in interdisciplinary teams on the **ongoing analysis and monitoring** of current political and social developments and their impact on the Group's business activity. The central risk management coordinates and supports this process.

The Group's global distribution in more than 120 countries is intended to provide a **natural hedge** against adverse developments in individual countries or regions. Unexpected developments in important sales markets can have a high financial impact. The Management considers this likelihood of this risk to be possible.

Environmental and health risks

The global value chain of HUGO BOSS is subject to **environmental and health risks** that may result from pandemics or environmental and natural disasters as well as the consequences of climate change.

The further development of the **COVID-19 pandemic** is linked to significant risks for HUGO BOSS also in 2021. The main material uncertainties at the time of preparing this report relate in particular to the duration of the pandemic – including possible additional waves of infection, delays in vaccine distribution or virus mutations – and the negative consequences of the various restrictions on public life, especially global lockdown measures. With regard to the latter, there is a significant risk that the lockdowns implemented at the beginning of the year, particularly in Europe, including temporary store closures, will last longer than expected, or that there will be further, as yet unforeseeable, extensive lockdowns and temporary store closures in important markets for HUGO BOSS during the year. There is also a significant risk that a slower than expected improvement in consumer confidence or continued international travel restrictions over the summer could significantly slow down the gradual recovery expected for the year or even bring it to a complete standstill. In addition to lost sales opportunities, the occurrence of the described risks would ultimately also have a significant negative impact on the Group's profitability and cash flow.

In addition, there are fundamental supplier and sourcing market risks connected to the pandemic. For example, in the event of a further deterioration of the situation in sourcing markets that are important for the Group, the production of individual suppliers or multiple suppliers may be temporarily interrupted. This could disrupt the Group's value chain, which would pose additional risks for sales. Although no significant implications on the Group's supply chain were observed either in fiscal year 2020 or at the time this report was prepared, the Company remains in close contact with its partners to ensure it is as well prepared for any bottlenecks as possible.

HUGO BOSS has set up various task forces and crisis teams to carefully monitor and mitigate the various impacts of COVID-19, with a focus on employee health and safety as well as business continuity. At Group level, there is an interdisciplinary coronavirus crisis team which closely monitors the course of the pandemic and comprehensively coordinates all measures taken by the Group to protect its employees. In addition, as part of Group management, a particularly close and regular exchange between the Managing Board, Group Controlling and the management of the corporate divisions and the Group companies has been taking place since the beginning of the pandemic. → **Group Management**

Overall, Management considers the risks above and beyond the financial impacts already taken into account in the "Outlook" section for 2021 to be fundamentally possible. The effect on earnings performance is classified as high. → **Outlook**, → **Material Operational Risks**

Risks as a result of climate change, such as increasing **water scarcity**, are considered as unlikely for fiscal year 2021, and are associated with low possible loss. In the future, however, this risk could become more significant for HUGO BOSS. In the long term there is a risk that an increasing scarcity of water could have negative consequences on the cultivation of cotton, leading to a reduced availability of cotton fibers and higher material costs as a result. Cotton is by far the most used material in the Company's products.

HUGO BOSS has a **central emergency management system** in order to be able to react promptly and appropriately to an environmental or natural disaster occurring. Its structural organization pools cross-functional skills needed to handle emergencies and is intended to ensure efficient coordination with clear decision-making paths. Overall, in 2021 Management anticipates that the environmental and health risks will have possible high implications on the net assets, financial position and results of operations.

Competitive risks

The competitive environment of HUGO BOSS is fundamentally characterized as being highly dynamic. Changes in the competitive environment may influence the Company's success, particularly in the medium to long term. Thus, HUGO BOSS is in direct competition with well-known clothing manufacturers in the premium segment for **customers**, but also for production capacity, retail space in preferred locations and brand ambassadors. In addition, BOSS and HUGO are increasingly competing with a large number of global and regional brands with strong credibility in casualwear and streetwear aimed at younger consumers – in particular in the highly **competitive casualwear segment**. Intensive competition for customers may in principle lead to **harmful competitive behavior**, such as persistently intensive discounting. Aggressive competitive behavior could also lead to higher marketing costs, which in turn could damage the Company's profitability and market position.

The Group is convinced that further **increasing the desirability** of its two brands, BOSS and HUGO, is the most important factor for its long-term success. All strategic initiatives are therefore aimed at sustainably increasing brand desirability. HUGO BOSS always puts customers and their needs at the center of its actions. From a brand perspective, the main goal of the Group is to significantly increase the attractiveness and awareness of BOSS and HUGO in the long term. From a sales point of view, the Company's main goal is to take full advantage of its omnichannel capabilities, which have been developed over the last few years, and to link all customer touchpoints to a **seamless, consistent customer experience**. Although HUGO BOSS considers itself generally well positioned in international competition, the risks considered possible in this regard nevertheless have significant financial implications. → **Group Strategy**

Material strategic risks

HUGO BOSS considers collection risks, risks to the brand and corporate image, and investment risk to be among the material strategic risks.

Collection risks

Collection risks can arise from changes in fashion and lifestyle trends. Challenges in the collection development process above all involve recognizing trends in a timely manner as part of creative management and incorporating these as quickly as possible into commercially successful collections.
→ **Research and Development**

Intensive **analyses of relevant target groups and markets** and of the successful sale of previous collections aim at reducing collection risks. Also, **proximity to customers** in the Group's own retail business and the increasing use of the data acquired as part of systematic **customer relationship management (CRM)** facilitate the recognition of changes in buying behavior at an earlier stage and allow these to be taken into account when developing future collections. In the course of the ongoing **digitization of the collection development process**, HUGO BOSS continues to shorten development times in order to respond even more quickly to global trends. → **Research and Development**

In recent years, the **casualwear and athleisure segments** in the global apparel market have developed more strongly than classic tailoring. With the consistent expansion of its casualwear and athleisurewear offerings, HUGO BOSS is looking to respond to this development in a targeted manner. The Company will continue to strengthen its collections in this area in future. Exploiting the full potential of casualwear is one of the Company's key strategic initiatives. → **Group Strategy**

The potential negative impact from collection risks are considered to be high. Based on the risk mitigation measures implemented however, Management deems the likelihood of occurrence to be unlikely.

Risks to the brand and corporate image

The occurrence of **risks for the brand and corporate image** can have a negative impact on the economic success of HUGO BOSS. For example, an inadequate quality of the products or services on offer in the own retail business, an uncontrolled pricing and markdown policy, the use of distribution channels that are damaging to the brand, an unattractive marketing mix or non-compliance with laws or social standards could have a damaging impact on the brands' image.

As a consequence, **protecting and maintaining the brand image** has a high priority at HUGO BOSS. Ensuring a globally uniform brand and shopping experience, strict quality controls, a centrally managed pricing policy, the constant focus on developing the distribution strategy, an active compliance management system and exacting occupational and social standards contribute towards this target. In addition, legal trademark protection and the prosecution of product piracy are important efforts to secure the brand image.

The corporate image of HUGO BOSS is reflected in how it is **perceived by its stakeholders**. All communication activities are managed by the central departments Corporate Communications, Investor Relations and Corporate Sustainability. These are involved in continuous dialog with all important stakeholder groups. Compliance with laws, standards and guidelines, both within the Group and by partners, is also regularly verified. The Management considers a negative impact on the brand and corporate image to be unlikely. The potential impact on the Group's net assets, financial position and results of operations is considered to be significant.

Investment risks

The Group's own retail activities come with **investment risks** in connection with the modernization of its store network, the selective opening of new stores, as well as the cross-channel integration and digitization of the Group's own retail business. The risk of bad investments refers for example to investments in stores for which long-term rental agreements have been entered into but which in retrospect fall short of the Group's profitability targets. Bad investments can also result from the development and implementation of new furniture designs and digital elements.

The risk in connection with **impairment** of the value of ordinarily depreciated property, plant and equipment, intangible assets, right-of-use assets at the level of the Group's own retail stores, and goodwill is the largest risk position in this area. In this context, in fiscal year 2020, HUGO BOSS recorded non-cash impairments of non-current assets of EUR 110 million, relating directly to the negative impact of the pandemic on the Group's retail business. In principle, it cannot be ruled out in future that a deterioration in the business outlook as well as changes in market rent levels may lead to an impairment of the Group's assets. However, as in fiscal year 2020, such an impairment would be non-cash in nature. For 2021, also in light of the persisting high uncertainties with regard to the further development of the COVID-19 pandemic, HUGO BOSS considers the risk of non-cash impairments as possible, with a potentially high financial impact. → **Notes to the Consolidated Financial Statements, Note 10**

For extensive investment projects there is a specific **authorization process**. Apart from qualitative analyses, e.g., with respect to potential locations of own stores, this also includes an analysis of each project's present value. **Central investment controlling** appraises the planned investment projects with respect to their contribution to the Group's profitability targets. In addition, subsequent analyses are conducted at regular intervals to verify the profitability of projects that have already been realized. Appropriate countermeasures are taken in the event of any negative deviations from the profitability targets originally set. The Group's investment risk is considered to be possible overall, with a potentially high financial impact. → **Group Management**

Material financial risks

HUGO BOSS is subject to currency, tax-related as well as financing risks.

Currency risks

As a result of the global nature of its business activities as well as the Group's internal financing activities, HUGO BOSS is exposed to **currency risks**, which may have an impact on the Group's net income and equity.

In the **operating business**, currency risks primarily arise due to the fact that products are bought and sold in different currencies in different amounts (transaction risk). Significant cash flows in foreign currencies are primarily related to the Group's global sales activities and the purchasing activities of the sourcing units in foreign currencies such as the U.S. dollar. Currency risks in financing result from financial receivables and liabilities in foreign currency and loans in foreign currency to finance Group companies **(transaction risk)**. As of the reporting date, the main financing loans were hedged using forward exchange contracts. In addition, currency risks exist in connection with the translation of financial statements of Group companies outside the Eurozone into the Group currency, the euro **(translation risk)**. The translation risk is monitored on an ongoing basis, however the Group does not hedge it as the impact on the consolidated statement of financial position and the Group's income statement is not a cash item. → **Notes to the Consolidated Financial Statements, Currency Translation**

Currency risks are managed centrally by the **Group's central treasury department**. Group-wide guidelines are intended to ensure a strict separation of the trading, handling and control functions for all financial market transactions. They also form the basis for the selection and scope of hedges. The primary aim is to mitigate the exchange rate exposure using **natural hedges**. This way, currency exposures from business operations throughout the Group can be offset against each other as much as possible, thereby minimizing the need for hedging measures. **Forward exchange contracts and swaps** as well as **plain vanilla options** can be concluded to hedge the remaining exposures. The objective here is to limit the impact of exchange rate fluctuations on exposures already on the balance sheet as well as future cash flows. → **Notes to the Consolidated Financial Statements, Note 20**

Future cash flows from the **Group's production activities in Turkey** are designated to be an effective hedging relationship shown on the balance sheet (hedge accounting). The derivative financial instruments used in this instance are solely intended to hedge underlying transactions. These derivatives are traded over the counter. When concluded, their terms are generally adapted to the underlying business. Transactions are always concluded with the best quoting bank.

In accordance with the **requirements set down in IFRS 7**, HUGO BOSS has calculated the effects of translation risk on the Group's net income and equity. This is determined based on the balance sheet currency exposure as of December 31, 2020. The exposures include cash, receivables and liabilities, as well as intercompany loans held in currencies other than the functional currency of each respective Group Company.

The Group applies the **value-at-risk method** on the basis of its parametric approach to quantifying and managing currency risk. The value at risk (VaR) is calculated on the basis of historical volatilities and correlations of exchange rates as well as a confidence level of 95%. The holding period is always adjusted to the remaining term of the current year. Furthermore, it is assumed that the total financial currency exposure and its hedging ratio as of the reporting date are representative for the entire reporting period. Although the VaR is an important concept in measuring market price risks, the model's assumptions can **limit** its usefulness. The actual impact on the Group's net income can vary considerably from the model-based values calculated using the VaR method. This is especially the case in the event of exceptional occurrences.

Aggregated across all currencies examined, the **diversified portfolio risk** for the Group's net income calculated using this method after hedging comes to EUR 7 million (2019: EUR 5 million). Hedging costs for concluding forward exchange transactions are not included. The largest foreign currency positions come from accounting exposure against the Renminbi, Japanese yen and the Australian dollar. The sensitivity of the Group's equity is not the same as that of the Group's net income due to the hedge accounting implemented in the Group. Had the euro appreciated or depreciated against the Turkish lira by one standard deviation, the Group's equity would have been EUR 1 million higher or lower in the reporting year (2019: EUR 1 million).

Management also expects significant changes in the exchange rates which are relevant to HUGO BOSS to be likely in fiscal year 2021. Based on the results of the VaR analysis, the impact of the **transaction risk** on the Group's net income is considered to be material. The **translation risk** is considered to be likely, with a possible significant impact. Overall, Management assumes a significant impact of currency risk.

Tax risks

As a globally operating group, HUGO BOSS is subject to a variety of **tax laws and regulations**. Changes in this area could lead to higher tax expenses and tax payments and also have an influence on recognized actual and deferred tax assets and liabilities. All tax-related issues are regularly analyzed and evaluated by the **Group's tax department**. The expertise of external local experts such as lawyers and tax advisors is also taken into account.

Tax risks exist for all assessment periods still open. Sufficient provisions were recognized for known tax risks. The amount provided for is based on various assumptions, for example the interpretation of respective legal requirements, the latest court rulings and the opinion of the authorities, which is used as a basis for measuring the loss amount and its likelihood of occurrence.

The Group tax department regularly assesses the likelihood of the future usefulness of **deferred tax assets** which have been recognized on unused tax losses. This assessment takes 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 five years for this purpose. Actual figures may differ from the estimates in this regard.

As for taxes, risks may occur primarily from **modifications of tax legislation** in various countries, due to varying assessment of existing topics by tax authorities or tax field audits. There may also be risks in transfer pricing in relation to the business model of the Company. The Group therefore considers tax risks to be possible overall, while assessing the financial impact as high. **→ Notes to the Consolidated Financial Statements, Note 5**

Financing risks

HUGO BOSS has secured its financial flexibility by means of a **revolving syndicated loan** with a term up to September 30, 2022. The syndicated loan agreement contains a standard covenant requiring the maintenance of financial leverage, defined as the ratio of net financial liabilities to EBITDA. In light of the implications of the COVID-19 pandemic on its business, HUGO BOSS has agreed with its financing banks in fiscal year 2020 on a **suspension of the covenant** until June 30, 2021. As of the reporting date, the contractually agreed ceiling has been exceeded. However, due to the suspension of the covenant, this does not represent a reason for cancellation. After the suspension of the covenant ends, HUGO BOSS is obliged to maintain the contractually agreed range of 0 to 3.5 until the end of the term. In case of a violation, the financing banks may declare the syndicated loan earlier due. In light of the Group's anticipated sales and earnings development in fiscal year 2021, HUGO BOSS currently expects financial leverage in the second half of 2021 to be substantially below the permissible maximum.
→ Financial Position, Capital Structure and Financing

Material operational risks

HUGO BOSS summarizes risks associated with the suppliers and sourcing markets, as well as quality, logistics and sales and distribution risks under material operational risks.

Risks associated with suppliers and sourcing markets

Risks associated with **suppliers and sourcing markets** exist in connection with a possible dependence on individual suppliers or production sites, a possible increase in product costs as well as any possible discrepancy between production and sales.

HUGO BOSS attaches great importance to the careful selection of suppliers and the establishment and maintenance of long-term strategic relationships. However, there is a risk that production from one or more suppliers may temporarily break down due to supplier factors or incidents affecting a particular region. An excessive **dependency on individual suppliers or production sites** could therefore lead to upheaval in the Group's supply chain and therefore to sales risks. The Group therefore focuses on a balanced distribution of sourcing volumes. The production and sourcing process is coordinated centrally. Supplier relationships are regularly monitored and evaluated with the aim of identifying risks at the earliest possible opportunity and introducing appropriate measures to ensure the supply of goods. In fiscal year 2020, the largest external supplier once again made up 8% of the total sourcing volume, while the largest single external production site made up about 5% (2019: 8% and 5% respectively).
→ Sourcing and Production

In view of the **earthquake risk** and possible risks as a result of **ongoing political uncertainties**, a particularly wide range of measures have been implemented at the Company's largest production site in Izmir (Turkey) in order to limit the impact on the sales of HUGO BOSS of a possible downturn in production. For some production volumes, emergency plans are in place to transfer production to external suppliers. Also, the financial risk in the event of an earthquake is partially covered by insurance. Despite the measures that have been implemented, Management overall estimates that risks from the dependence on individual suppliers or the regional distribution of the sourcing volume are possible. However, the associated financial impact could generally be high.

Increasing wages for production employees, in particular in emerging economies, as well as an increase in the price of relevant raw materials to the Group such as cotton, wool and leather may lead to **higher product costs** and so have a negative impact on the profitability of the Group. HUGO BOSS counters this risk with margin-based collection planning, measures to improve efficiency in the production and sourcing processes, continuous optimization in the use of materials and regular review of its pricing policy. It is assumed at present that risks from higher production costs are in principle possible, and these may have a high negative impact on the development of earnings.

The forecasting of sales volumes, planning of production capacities and allocation of raw materials and finished goods as part of the sourcing processes involves **scheduling risks**. Deviations from an appropriate allocation can lead to excess allocation resulting in high inventory levels on the one hand. On the other hand, it can also lead to insufficient allocation and the risk of lost sales opportunities. In order to reduce this risk, the Group is making great efforts to continually improve the outlook quality and to keep making the goods management more flexible across channels and markets. At the same time, HUGO BOSS aims to coordinate purchasing and sales even better in future by further shortening lead times and thus to be able to react even better to market trends and customer needs. In view of the large volumes involved, the scheduling risk is in principle considered as possible. The associated financial impact could be high depending on their magnitude.

Overall, the aggregate potential impact of risks associated with suppliers and sourcing markets is considered to be high. Aggregated together, the likelihood of occurrence is considered as possible.

Quality risks

When sourcing materials and manufacturing its products, HUGO BOSS sets exacting standards with regard to **quality**. Thorough quality controls at all stages and the incorporation of customer feedback should contribute to the continuous improvement of the production process. Also, both the Company's own production sites as well as those belonging to partners are regularly monitored to make sure they comply with central quality guidelines. Incoming goods checks as well as intensive quality tests at the Metzingen site aim at ensuring the high quality standards at HUGO BOSS. Nevertheless, the Group considers a certain amount of product returns for quality reasons to be possible. However, the impact on the development of earnings is considered to be high despite the recognition of appropriate provisions for returned goods and the regular review of the amounts recognized. → **Sourcing and Production**

Logistics risks

HUGO BOSS is exposed to **logistics risks**, which relate on the one hand to potential interruptions in the transport of goods, for example due to a possible shortage of sea and air freight. This directly involves risks of a general increase in freight costs, as well as significant interruptions in the availability of goods. In addition, the temporary downtime or loss of warehouse locations may lead to lost sales opportunities. The storage of inventories is focused on selected sites operated by HUGO BOSS. The distribution centers for hanging goods, flat-packed goods and the European online business, all located in the immediate vicinity of the headquarters in Metzingen, form the core of the Group-wide logistics network. → **Business Activities and Group Structure**

HUGO BOSS will also work on the continuous optimization of its global logistics platform in future with the aim of continuously improving the **efficiency and flexibility of its logistics** while at the same time largely minimizing logistics risks. In addition, the adherence to comprehensive **fire protection and safety measures** is continuously monitored at all warehouse locations. HUGO BOSS has also taken out insurance to cover the direct financial risk from a loss of goods or equipment in warehouses. Based on the measures implemented, the likelihood of occurrence of logistics risks is considered to be unlikely. However, the associated financial impacts could generally be high.

Sales and distribution risks

Sales and distribution risks exist in connection with the Group's own retail activities, in particular with regard to inventory management as well as slow-moving goods and the resulting impairment. In the wholesale channel, sales and distribution risks mainly refer to a possible dependency on individual wholesale partners as well as bad debts.

The aim of the centrally organized inventory management is the forward-looking and optimal allocation of the inventory across the Group while at the same time ensuring that it remains flexible, in order to be able to react to any increase or decrease in demand at short notice. **Downturns in demand** or **erroneous assessments of sell-through rates** can potentially have a negative impact on the inventory turnover rate. HUGO BOSS therefore aims to continuously improve its inventory management. The countermeasure of **granting additional discounts** necessarily results in a negative impact on the gross profit margin and ultimately on the Group's profitability. It is therefore continually monitored by the central Controlling department. A centrally managed pricing policy, differentiated retail formats and collections adjusted to the respective retail formats serve to further improve the efficiency of selling space.

Inventory risks may result from inventories being kept in storage for longer and a potential reduction in their marketability as a consequence. According to the principle of net realizable value, **impairments on inventories** are recognized accordingly and are monitored on a monthly basis. As part of the process, system-based analyses of movement rate, range of coverage and net realizable value are applied in a uniform manner across the Group. Sufficient write-downs were recognized as of the reporting date from the Management's perspective. → **Notes to the Consolidated Financial Statements, Note 12**

Attention is paid to ensuring a balanced customer structure to avoid a potential **overdependence on individual customers** in the wholesale channel. The central Controlling department constantly monitors key performance indicators such as the order intake, sales and supply rates and reports on these to the Managing Board on a regular basis. If risks occur, countermeasures can be adopted promptly. → **Group Management**

In the wholesale channel, the Group is exposed to a **bad debt risk** based on the potential insolvency of individual trading partners and a concentration of bad debts in the event of an economic slowdown in individual markets. The **Group-wide receivables management** follows uniform regulations, for example regarding the credit rating checks and the setting and observance of customer credit limits, monitoring of the age structure of receivables and the handling of doubtful accounts. In specific cases, this means that deliveries are only made upon prepayment or business is discontinued with customers with an unsatisfactory credit rating. The internal audit department regularly checks compliance with the Group guidelines. As of the reporting date, there was no concentration of default risks caused by significant overdue payments of individual customers. The overall financial impact of possible receivable default risks is considered to be moderate in the light of the measures described. → **Notes to the Consolidated Financial Statements, Note 13**

In summary, Management estimates the likelihood of occurrence of sales risks as possible. The cumulative financial impact is largely classed as high due to the potential discounts and impairments.

Material organizational risks

HUGO BOSS considers IT risks, personnel risks, and governance and compliance risks to be among the material organizational risks.

IT risks

Smooth business operations with efficient processes are strongly dependent on a powerful and secure IT infrastructure uniformly implemented throughout the Group. Serious **failures of the Group's IT system** may result in significant business interruptions. In addition, **cyberattacks** can lead to major system interruptions, loss of confidential data and the ensuing loss of reputation and liability claims. In order to reduce these risks, preventative system maintenance and security checks are carried out by the central IT department on a regular basis, multi-level security and anti-virus concepts are implemented, and job-related access rights are assigned. In addition to this, access control systems, daily data backups of the Group-wide ERP system, an uninterrupted power supply as well as regular online training sessions for staff should increase IT security on a Group level. The internal audit department regularly monitors the security and reliability of the IT systems as well as the effectiveness of the control mechanisms which have been implemented.

HUGO BOSS assumes that global cyberattacks will continue to increase in future, and consequently classes it as an **"emerging risk"**. With the objective of further improving the ability to respond to potential attacks, the Company intends to keep working on the continuous development of its information security program. As part of this development, the Company has implemented a security information and event management system. This security management approach is intended to provide a complete overview of the Group's IT security. Due to the measures carried out, Management currently considers the occurrence of IT risks to be unlikely. However, the associated financial implications could generally be high.

Personnel risks

Achieving the Group's strategic and financial targets is largely dependent on the skills and commitment of its employees and on safeguarding a fair and value-based corporate culture. Personnel risks mainly stem from **recruitment bottlenecks, shortages of specialists** and **excessive employee turnover**. HUGO BOSS counters this risk with a forward-looking personnel planning, comprehensive development and training measures, the continuous development of its performance-based remuneration system and flexible working models to better combine work and family life. Management therefore assesses personnel risks as unlikely overall, but also as having a high financial impact. → **Employees**

Governance and compliance risks

All employees of HUGO BOSS are required to comply with the **Code of Conduct** applicable throughout the Group and the **compliance rules** applicable in specific areas. The Group companies are subject to regular risk analyses and detailed audits where applicable. Adherence to the compliance rules is monitored by the central compliance division and breaches are reported to the Managing Board and Supervisory Board. → **Corporate Governance and the Corporate Governance Statement**, → **Combined Non-Financial Statement, Anti-Corruption and Bribery Matters**

Breaches of **data protection** laws represent an increased compliance risk. The Group counters this risk using a system that complies with data protection laws and through appropriate technical and organizational measures. All employees are educated on data protection matters through activity-related training courses, the obligation to adhere to the Code of Conduct, and a separate duty of confidentiality. All internal processes and systems for processing personal data are measured on an ongoing basis and continually improved to ensure that they comply with the legal data protection requirements. Management assesses the risks in the context of governance and compliance as possible, with a high financial impact. → **Combined Non-Financial Statement, Social Matters**

Report on the accounting-related internal control system and the risk management system pursuant to Sec. 289 (4) and 315 (4) HGB

The system of internal control and risk management of HUGO BOSS, as applied to the (Group) financial reporting process and the financial statements closing process, aims to accurately reflect all business transactions in the accounting records. This should ensure the **reliability of the financial reporting** and make sure that all **accounting-related activities comply with laws and guidelines**. All assets and liabilities should be recorded accurately in the consolidated financial statements with regard to recognition, disclosure and valuation, which should enable a reliable statement to be made on the Group's net assets, financial position and results of operations. As well as adherence to legal regulations and the Company's internal guidelines, the use of efficient IT systems, a clear definition of responsibilities, and suitable training and development for employees in the finance department form the basis of a proper, consistent and efficient financial reporting process.

Using efficient IT systems

Controls across all business units require reliable information to be available and provided on time. The reporting systems of HUGO BOSS are therefore of great importance. The use of a uniform, SAP-based ERP system across the Group is intended to ensure **high levels of control quality**.

The aim of the **Group-wide SAP Security Policy** is to prevent unauthorized access to data and to ensure the integrity, availability and authenticity of data of relevance to financial reporting at all times. It also contains requirements for controls designed to ensure a properly functioning central finance department. System-enabled controls and workflow-based processes that impose the dual-control principle, a suitable separation of functions, and internal approval procedures supplement the IT security of the accounting-related processes. This includes invoice verification and approval, sourcing processes or SAP authorization management carried out by the central IT department.

Clear definition of responsibilities

As part of the standardized reporting, the Group companies prepare IFRS financial statements on a monthly basis and submit these to the **central finance department** together with further key performance indicators and explanations. The central finance department is also responsible for specifying and monitoring compliance with reporting obligations and deadlines. Automated and standardized reporting formats are in place for the vast majority of reporting topics. The finance department is responsible for the maintenance of all the master data for the chart of accounts applicable throughout the Group as well as the continuous review of all reporting formats with respect to their compliance with the latest applicable international financial reporting requirements. When preparing the consolidated financial statements, the finance department also pursues the objective of showing all business transactions in the Group in a uniform manner.

The central finance department is also responsible for developing uniform **guidelines and instructions** for accounting and tax-related processes and keeping them up to date. This mainly encompasses the preparation and revision of a bad debt allowance policy, an investment guideline, the IFRS accounting manual and binding intercompany reconciliation requirements.

All Group companies are legally independent entities. Apart from the managing directors, who are responsible for business operations in the respective market, the finance managers are responsible for all topics of relevance to the Company's financial reporting or tax situation. The **finance manager is also responsible** for the continuous monitoring of the most important key performance indicators as well as the monthly reporting of financial KPIs to the central finance department and the preparation of a multi-year plan for the respective market. In his capacity as technical supervisor of all finance managers, the Chief Financial Officer of HUGO BOSS AG is authorized to issue directives on, and is thus responsible for, the Group-wide financial management and financial reporting processes.

On a quarterly basis, the finance managers and managing directors of the Group companies confirm **compliance in writing with the defined principles** on a quarterly basis and the **execution of management controls** with regard to the accounting process. Reports also have to be submitted regarding the appropriateness of controls for ensuring data integrity and data protection as well as in the event of fraud or serious infringements of the internal control system.

Material accounting and valuation topics and the impact of the new or changed IFRS standards and interpretations are discussed with the **Group auditors** in regular meetings held at least on a quarterly basis.

The **internal audit department** is part of the system of internal control and in its oversight function reviews compliance with and the effectiveness of the defined controls with regard to the accounting process. The annual audit plan is coordinated with the Managing Board and the Audit Committee of the Supervisory Board. This is where the areas of focus are defined. Additional ad hoc audits can also be performed at any time. All audit reports are submitted directly to the Chief Financial Officer and, on request, to the Managing Board as a whole. The internal audit department also reports regularly to the Audit Committee of the Supervisory Board.

Training and development of employees

Training sessions are organized at regular intervals for employees involved in the accounting process. Updates on accounting-related topics are also communicated across the Group via the "Accounting Newsletter". The finance managers also meet at regular intervals with managers in the central finance department for the "Finance Manager Meeting". Training is also held for finance employees of the entire Group on a regular basis under the auspices of the "Financial College" in current developments in international financial reporting and any topics relevant for preparing the annual financial statements.

Opportunities report

Identifying and utilizing business opportunities is a key element of sustainably increasing enterprise value. At HUGO BOSS, opportunities are defined as possible positive deviations from planned targets or corporate planning assumptions.

Opportunity management

Due to its direct link to the targets of the respective business divisions, **responsibility** for the identification, assessment and exploitation of business opportunities lies with the operational management in the respective regions, individual markets and central functions. In this context, opportunities are always considered in conjunction with any associated risks. They are only pursued if they outweigh the risks associated with them and the risks are considered to be manageable and their potential impacts limited.

Short-term opportunities, in the sense of potential, positive deviations from the planned operating result in the current fiscal year, are discussed at regular intervals with the management of the particular market or region or with the central functions. Appropriate measures to exploit such opportunities are initiated as required. The **long-term management of opportunities** is directly linked to the Group strategy. Opportunities identified and evaluated in terms of their contribution to the enterprise value are analyzed in detail within the context of strategic planning and annual budget discussions. On this basis, the Managing Board allocates the necessary resources to the operational units to enable them to benefit from their realization.

HUGO BOSS has identified the following **material opportunities** that stem from the Company's environment, its corporate strategy and operational implementation.

External opportunities

As a company operating in the global apparel industry, HUGO BOSS can benefit directly from **favorable macroeconomic developments** and their effect on consumer confidence and customers' buying behavior. In this context, a much faster than expected recovery in consumer confidence from the implications of the COVID-19 pandemic could have a positive impact on the business performance of HUGO BOSS. In addition to an early end to the global lockdown measures, a speedy return of social events and a rapid normalization of international travel would have a positive impact on the Company's business in particular. Irrespective of this, **social trends** that enhance the value of high-quality apparel more strongly than before could also support the sales of HUGO BOSS overall, regardless of how consumer confidence develops.

Regulatory and legal changes can potentially have a positive impact on sales opportunities and the Company's profitability. More consistent prosecution and punishment of violations of trademark rights, for example, could positively affect sales development. In addition, the reduction of customs charges could improve the Company's profitability.

Financial opportunities

Favorable **exchange rate developments** can potentially have a positive impact on the development of the Group's earnings development. The Group's central treasury department analyzes the market environment continuously and is responsible for identifying and tapping into relevant opportunities within the framework of financial management principles. → **Financial Position**

Strategic and operational opportunities

The Company has set itself the goal of significantly increasing the **desirability of the BOSS and HUGO brands** in the long term with a variety of strategic priorities and initiatives. The Company's marketing activities are primarily aimed at sustainably increasing the attractiveness and awareness of BOSS and HUGO and strengthening the profile of both brands, especially among younger target groups. The Company views the success of its marketing activities as entailing significant economic opportunities that could have a direct positive effect on the Company's sales development. → **Group Strategy, Emotionalizing the Brands**

In recent years, the **casualwear and athleisure segments** in the global apparel market have developed better than formalwear. The continuous shift to working from home particularly evident during the pandemic, has further intensified the trend toward a more relaxed clothing style and the need for many consumers to dress more casual. Independent studies, such as the current market outlook of The Business of Fashion and McKinsey & Company, expect above-average growth rates for the casualwear and athleisure segment also in the future. The further expansion of the casualwear and athleisurewear segments – across all brands, genders and occasions – is therefore also one of the most important strategic initiatives at HUGO BOSS. In future, the Company will continue to break down the boundaries between casualwear and formalwear in order to take account of the increasing importance of casualwear. At the same time, the Company intends to further strengthen its important **formalwear business**. The modern interpretation of formalwear and the ongoing trend towards casualization thus represent enormous potential. Its exploitation should enable HUGO BOSS to continue to be a leader in the upper premium segment of global apparel industry. → **Group Strategy, Pushing Casualization**

In many emerging markets, economic researchers are expecting **continued growth within the middle classes**. This, in turn, results in an increase in the number of people demanding products in the upper premium segment as a result of their purchasing power. The Group regularly checks for suitable growth potential by means of market entry and market penetration strategies tailored to specific countries, from collaboration with business partners to the founding of its own distribution companies. HUGO BOSS is convinced that the Company **has significant growth potential, particularly in mainland China**. As the importance of this market is expected to increase further in the coming years, the consistent exploitation of sales opportunities in China remains an important priority for HUGO BOSS. In addition to a growing middle class, a structural return of local demand in the coming years is expected to support the importance of the Chinese market. Targeted brand communication activities are therefore intended to further increase the awareness and desirability of BOSS and HUGO in China. In addition, the further expansion of the brick-and-mortar retail business and the online business are intended to help to fully exploit the Group's opportunities in this important market in future. → **Group Strategy, Exploiting Growth Potential in China**

The **increasing use of digital offerings** has significantly changed consumers' shopping behaviors and lifestyles over the last few years. By continuing to expand and improve **its own online store hugoboss.com**, the Group intends to exploit the associated opportunities and meet consumers' expectations with respect to a high-quality digital brand experience in the best possible way. In order to further accelerate the expansion of its digital flagship store, in 2020 the Group entered into a strategic partnership with Global-e, a leading provider of full-scale, cross-border e-commerce solutions. This enabled HUGO BOSS to tap into a total of 32 additional online markets in 2020, thereby expanding the presence of its online store hugoboss.com to a total of 47 countries. In the medium term, the Group aims to make its online stores available in almost every country in the world. The **expansion of the concession model** within the online business also offers suitable opportunities. Furthermore, HUGO BOSS intends to continue to drive forward the **commercial use of social media**, which is enjoying increasing momentum already today. → **Group Strategy, Leveraging the Online Business**

By **strengthening important operational processes**, HUGO BOSS aims to ensure efficiency and flexibility along the entire value chain. The Company sees an important opportunity in further **optimizing its sourcing activities** with the aim of optimizing processes and realizing cost savings without compromising on product quality. Further reducing the complexity of the BOSS and HUGO collections also plays an important role here. In addition, the Company wants to fully exploit the potential of **digitizing the business model** across the entire value chain in future. The Company is convinced that it will be able to create additional customer value and increase the efficiency and flexibility of its business in the long term. In this context, the Group sees a significant opportunity in the increasingly digital performance of its products. This is intended to reduce costs and significantly cut development times, which will enable a faster response to market trends. Also in selling and distribution, the Group wants to realize respective opportunities within the scope of digitization. In particular, HUGO BOSS wants to make full use of the **omnichannel capabilities** it has developed in recent years. The focus is on linking all customer touchpoints to a seamless, consistent customer experience. → **Group Strategy, Driving Digitization Along the Entire Value Chain**

In recent years, the importance given to protecting the environment and the climate has grown consistently, including among consumers. Besides high-quality, innovative products, customers today increasingly demand compliance with high social and ecological standards. The Company is firmly convinced that the **global trend towards greater sustainability** will continue in the coming years. With its wide variety of sustainability activities, HUGO BOSS is already investing directly in increasing customer satisfaction. Acting sustainably offers economic opportunities for the Company in the future as well, both in relation to sales increases and a reduction in cost. HUGO BOSS also sees the opportunity to further increase the general reputation of the Company and its brands. → **Sustainability**

Organizational opportunities

HUGO BOSS wants to promote a **corporate culture** that enables decision-making processes to be accelerated and encourages entrepreneurial thinking of its employees. This comes with opportunities to adapt to changes faster and more comprehensively than in the past and to increase customer benefits sustainably.

As an international company, **diversity** is a core element of the corporate culture at HUGO BOSS. To take into account the importance of the topic, HUGO BOSS has implemented numerous initiatives to guarantee all employees equal opportunities and a working environment that is free from discrimination. Among other things, an international task force was set up to further promote selected topics, such as inclusion or diversity in management positions. HUGO BOSS is convinced that the intensification of its activities in the area of diversity will make a positive contribution to employee satisfaction and loyalty to the Company.

HUGO BOSS is aligning its **personnel work** towards shaping the environment in the Company in such a way that employees can constantly grow and develop their full potential. In this regard, the Group puts particular emphasis on the results from its annual employee survey. Further successes in strategic personnel work could have a direct positive effect on the sales and earnings position in the future. → **Employees**

OVERALL ASSESSMENT OF THE MANAGING BOARD ON THE ECONOMIC SITUATION AND EXPECTED DEVELOPMENT OF THE GROUP

After a very encouraging start to fiscal year 2020, the **rapid spread of COVID-19** led to a significant impact on the global business of HUGO BOSS. In particular, widespread temporary store closures in light of global lockdowns, large-scale restrictions on public life including extensive social distancing measures, and international travel restrictions put a significant strain of sales, EBIT and free cash flow. The implications of the pandemic became particularly evident in Europe, the Group's largest region by far, and the Americas. In Asia, however, the swift recovery of business in mainland China compensated for some of the declines in the region's other markets. **→ Comparison of Actual and Forecast Business Performance, → Earnings Development**

Despite the noticeable negative impact of the pandemic on its business, HUGO BOSS continued to make significant progress in 2020 with its **strategic growth drivers China and Online**, where sales either returned quickly to double-digit growth or accelerated even further. From a brand perspective, further **increasing the desirability of BOSS and HUGO** was a clear focus of all of the Company's initiatives. Thanks to a variety of digital events, exclusive collaborations with brands and ambassadors and a strong focus on casualwear, the attractiveness of both brands was further enhanced. At the same time, HUGO BOSS succeeded in **further improving the efficiency and flexibility of its operational processes** in 2020 – largely reflecting its consistent focus on driving digitization across the entire value chain. **→ Group Strategy**

Overall, **Group sales** decreased by 31%, adjusted for currency effects, totaling EUR 1,946 million. In addition to temporary store closures in light of the lockdowns, large-scale restrictions on public life as well as extensive travel restrictions negatively impacted sales development. In addition to the significant decline in sales, a lower gross margin reflecting increased markdown activity, also weighed on operating result. Excluding non-cash impairments of non-current assets related to the pandemic, **operating result (EBIT)** therefore amounted to minus EUR 126 million (2019 excluding impairment charges: EUR plus 355 million). Thanks to the successful implementation of comprehensive measures with a total volume of at least EUR 600 million, aimed at protecting cash flow, HUGO BOSS has achieved significant cost savings and secured the financial stability and flexibility of the Company at any time during the pandemic. HUGO BOSS thus ended the year 2020 with a positive **free cash flow** of EUR 164 million (2019: EUR 457 million). **→ Earnings Development, → Financial Position**

In light of the persisting high degree of uncertainty regarding the further development of the pandemic and the high risk surrounding the expectations on the further development of the global economy and industry, HUGO BOSS, at this point in time, cannot provide a precise **outlook for fiscal year 2021**. While the implications of the pandemic are expected to continue to weigh on the business of HUGO BOSS in particular in the first half of the year, the Company is confident that the global retail environment will gradually improve over the course of 2021. This is also expected to positively support the recovery of the business of HUGO BOSS, in particular in the second half of the year. For fiscal year 2021, the Company therefore expects that **Group sales** will be significantly above the level of 2020. Also for **EBIT**, the Company forecasts a strong increase as compared to the prior year. At the same time, HUGO BOSS will continue to work consistently on the implementation of its strategic initiatives this year. In addition, the Company intends to host an Investor Day in the second half of 2021. In this context, the Group will outline its strategic ambition in detail. **→ Outlook, → Group Strategy**

In light of the very challenging nature of fiscal year 2020 as well as the persisting high uncertainty with regard to the further development of the pandemic, the Managing Board and Supervisory Board of HUGO BOSS intend to propose to the Annual Shareholders' Meeting to only pay the **legal minimum dividend** of EUR 0.04 per share for fiscal year 2020. In doing so, the Company aims at further strengthening its internal financing capability. However, on the basis of the Company's ongoing business recovery as well as strong cash flow generating business model, HUGO BOSS remains confident to continue to generate significantly positive free cash flow in the future. This, in turn, shall enable the Company to return to an attractive dividend policy. In light of its **healthy balance sheet structure** and **strong free cash flow generation**, HUGO BOSS continues to be in a sound financial position at the time this report was prepared. → **Outlook**

Metzingen, March 5, 2021

HUGO BOSS AG
The Managing Board

Yves Müller
Dr. Heiko Schäfer
Oliver Timm
Ingo Wilts

COMPENSATION REPORT

- **Report outlines the compensation system for the Managing Board and Supervisory Board**
- **Presentation of structure, composition and amount of the compensation components**
- **Compensation report aligned to the recommendations of the German Corporate Governance Code**

This compensation report forms a component of the audited, combined management report. It describes the main features of the compensation system for the Managing Board and Supervisory Board of HUGO BOSS AG. It also presents the structure, composition and amount of the compensation system. The report is based on the recommendations of the German Corporate Governance Code (GCGC) in the version of December 16, 2019 and contains disclosures based on the requirements of German Accounting Standard (GAS) 17, the HGB ["Handelsgesetzbuch": German Commercial Code] and the International Financial Reporting Standards (IFRS). The quantitative disclosures pursuant to IAS 24 and IFRS 2 are presented in the Notes to the Consolidated Financial Statements.

Compensation of the Managing Board

Decisions concerning the compensation of Managing Board members (including former Managing Board members and their surviving dependents) as well as regular advice on and reviewing of the compensation system are the responsibility of the full Supervisory Board. However, the Personnel Committee submits relevant proposals in preparation for decisions on these matters. The personnel matters dealt with by the Supervisory Board and the Personnel Committee during the reporting year and compensation-related topics are explained in the Report of the Supervisory Board. → **Report of the Supervisory Board**

The compensation structure is geared toward the sustainable growth of the Company by factoring in compensation components with a multi-year assessment period. The total compensation of individual members of the Managing Board is specified by the Supervisory Board based on a performance assessment, taking into account any payments made by Group companies. Criteria for determining the appropriateness of the compensation are the responsibilities of the individual member of the Managing Board, their personal performance, the economic situation, the performance and outlook of the Company, as well as the level of compensation usually paid, taking into account peer companies and the compensation structure in place in other areas of the Company. At its professional discretion, the Supervisory Board can decide on special payments for outstanding achievements or successes of a member of the Managing Board. Compensation information from comparable national and international listed companies operating in the fashion and lifestyle industry is used to assess the appropriateness of the total compensation. In compiling the set of competitors, the Supervisory Board takes into account not only industry affiliation, but also market position, as well as the size and global orientation of the companies.

Main features of the compensation system for the Managing Board
The compensation system for the Managing Board is designed to ensure the increase in enterprise value. Consequently, the long-term variable compensation and its respective objectives are designed to promote sustainable and long-term growth for the Company. At the same time, and in order to account for short-term developments, sales, operating profit (EBIT) and trade net working capital are the targets for short-term variable compensation. Also, during the design process, a great deal of importance was attached to the fact that above-average performance would be rewarded accordingly. At the same time, variable compensation would cease to be paid in the event of below-average performance.

In addition to non-performance-related (fixed) compensation components, the compensation system also includes core performance-related (variable) compensation components in the form of a short-term incentive program (STI) and a long-term incentive program (LTI). In this regard, the average share of the fixed compensation components in the total target compensation amounts to 36%, while the average share of compensation from the STI and from the LTI account for 25% and 39% respectively, assuming a target achievement of 100% each for both the STI and the LTI.

Compensation system of the Managing Board

Total compensation

Variable compensation

Basic compensation	**Short-term performance-related compensation**	**Long-term performance-related compensation**	**Non-monetary and fringe benefits**
~36%	**~25%**	**~39%**	
Annual fixed salary	Based on sales (30%), EBIT (40%), and trade net working capital in % of sales (30%)	Long-term incentive program (LTI), based on RTSR (33%), ROCE (33%), employee satisfaction (17%), and sustainability performance (17%)	E.g. retirement benefits, company car

Schematic diagram – percentage of the target values of fixed and variable compensation.
The percentage distribution may occasionally be subject to slight differences.

Non-performance-related (fixed) compensation components

The fixed compensation components consist of a fixed basic compensation, fringe benefits and contributions to retirement benefits. The fixed basic compensation is paid as a monthly salary. Members of the Managing Board also receive fringe benefits to a small extent which they pay tax on individually according to the applicable tax regulations if they derive any financial advantage from their private use. The fringe benefits primarily include private use of the company car, supplementary payments to health and nursing care insurance, the closing of and contributions to accident and directors' and officers' (D&O) liability insurance as well as, to a small extent, other equipment and services needed to fulfill their duties as members of the Managing Board. In accordance with Sec. 93 (2) Clause 3 AktG ["Aktiengesetz": German Stock Corporation Act], the deductible for the D&O insurance is 10% of the relevant loss, but no more than 1.5 times the fixed annual compensation.

Against the backdrop of the COVID-19 pandemic, HUGO BOSS has implemented extensive measures aimed at safeguarding the financial stability and flexibility of the Company. The members of the Managing Board of HUGO BOSS AG also participated in the measures to secure cash flow and voluntarily waived 40% of their basic compensation for the months of April and May 2020.

Performance-related (variable) compensation components

Short-term variable compensation – short-term incentive program (STI)
As a short-term performance-related compensation component, the STI is tied to the development of certain quantitative targets within a fiscal year. In accordance with the Group's management system and the goal of maximizing free cash flow in the long term, the Supervisory Board has determined the following key performance indicators as targets:

- Sales (the sales proceeds recognized in the consolidated financial statements using the exchange rates applied in the budget)

- EBIT (the Group's net income before interest and taxes)

- Trade net working capital (the sum of raw and finished goods as well as trade receivables less trade payables) in proportion to sales → **Group Management**

The targets for sales and trade net working capital are weighted at 30% each. The EBIT is included in the STI's target achievement with a weighting of 40%.

The Supervisory Board is convinced that the target components promote the operating and strategic development of the Company. For this reason, the above target components also apply to fiscal year 2021.

For the annual bonus in any given fiscal year, the targets to be achieved are set in a target-setting agreement between the Managing Board and the Supervisory Board at the start of the fiscal year and by March 31 at the latest. All targets may be replaced by other Group targets or weighted differently for the respective fiscal year in the context of the target evaluation. This allows the company to respond to short-term developments even post the completion of a performance period and at the start of the next performance period. As a result, the Supervisory Board has the opportunity to regularly align the Managing Board's compensation so that it is directly geared towards the Company's strategy and its successful implementation. The Managing Board and the Supervisory Board should reach an agreement concerning the targets and their weighting in this regard. The Supervisory Board shall only make decisions at its professional discretion if this does not happen.

In the event that the agreed targets are fully achieved on average, the respective member of the Managing Board shall be paid 100% of the contractually agreed amount. Target achievement above the maximum target of 150% or below the minimum target of 75% agreed for the individual target shall not be taken into account when calculating the average. If the average target achievement comes to 150% or more, a maximum amount (cap) of 150% is paid out. If, on the other hand, the average degree of target achievement is below 75%, no annual bonus will be paid. Between the minimum target and the maximum target, target achievement shall be determined in each case by linear interpolation. The annual bonus is payable within a week of the Supervisory Board approving the consolidated financial statements for the fiscal year in question. If the targets were achieved in full (100%) for the 2020 STI, a total amount of EUR 1,330 thousand would be paid out (Yves Müller EUR 454 thousand, Dr. Heiko Schäfer EUR 396 thousand and Ingo Wilts EUR 480 thousand).

The target weighting, the target values, the actual values and the degree of target achievement for the individual target components for fiscal year 2020 are summarized in the table below.

Target achievement STI (in EUR million)

Target component	Target weighting	Target value 2020 (based on target achievement of 100%)	Performance corridor (Min/Max) 2020	Actual value 2020	Target achievement 2020
Sales [1]	30%	1,959	1,859 to 2,059	1,980	111%
EBIT	40%	(213)	(243) to (183)	(236)	81%
Trade Net Working Capital in proportion to Sales	30%	28.1%	29.1% to 27.1%	28.7%	83%
Total	**100%**				**91%**

[1] On the basis of the exchange rates applied in the budget.

For fiscal year 2020, the average target achievement was 91%. At its meeting on March 3, 2020, the Supervisory Board has determined the STI target values in a way that the final target values will consider the negative implications of the COVID-19 pandemic on the business of HUGO BOSS. Accordingly, the determination for fiscal year 2020 takes into consideration the financial implications of the pandemic on sales, EBIT and trade net working capital. This is intended to ensure that also the short-term variable compensation for fiscal year 2020 is solely geared towards the underlying business performance of the Company.

Long-term variable compensation – long-term incentive program (LTI)

Under the LTI program, the members of the Managing Board receive a defined number ("initial grant") of virtual shares ("tranches") at the beginning of the plan or at the start of their activity. The initial grant is based on an amount ("LTI budget") defined in the respective service agreement or by an additional agreement. The initial grant is calculated by dividing the LTI budget by the share price for the last three months preceding the awarding of the initial grant. Each tranche has a three-year performance term. A one-year qualifying period follows the expiry of a tranche's performance term. Following the expiry of the performance term, the final number of virtual shares ("final grant") is calculated based on the achievement of certain target components. The final entitlement to payment is calculated by multiplying the final grant by the Company's share price during the last three months of the qualifying period.

The Supervisory Board has defined the following target components for the tranches 2017 to 2019, 2018 to 2020, 2019 to 2021 and 2020 to 2022:

- Relative total shareholder return (RTSR) of the HUGO BOSS share
- Return on capital employed (ROCE)
- Employee satisfaction
- The Company's performance in the field of sustainability

The Supervisory Board is convinced that these target components promote sustainable and long-term growth for the Company. For this reason, the above target components also apply to fiscal year 2021.

The RTSR target component is currently measured on the basis of the increase in the Company's enterprise value, comprising the share price performance and hypothetically reinvested dividends, compared to the MSCI World Textiles, Apparel & Luxury Goods Performance Index. The return on capital employed is based on the development of ROCE (return on capital employed) versus the budget. The degree of employee satisfaction is measured on the "Employee Trust Index" by an employee survey conducted annually by an independent institute for the 2019 to 2021 and 2020 to 2022 tranches. Employee satisfaction is also compared with the top 100 companies in Germany for the 2017 to 2019 and 2018 to 2020 tranches, in addition to the "Employee Trust Index". The sustainability performance is determined by the Company's ranking in the Dow Jones Sustainability Indices (DJSI), in which the sustainability performance of listed companies is assessed by an independent index provider. While the targets for the RTSR and ROCE performance criteria each account for one third of the LTI program, the targets for employee satisfaction and sustainability each account for one sixth.

Specific target, minimum and maximum values are defined for each target component and are used to calculate the entitlement to payment. The targets are set on March 31 at the latest of the first year of the performance term in a target-setting agreement between the Managing Board and the Supervisory Board. The Managing Board and the Supervisory Board should reach an agreement in this regard. The Supervisory Board shall only make decisions at its professional discretion if this does not happen.

A target achievement of only 50% minimum and 200% maximum is taken into account for each target component for the purposes of calculating the final grant. A one-year qualifying period follows the expiry of the performance term. The entitlement to payment is based on the Company's share price during the last three months of the qualifying period and the amount is limited to 250% of the individual LTI budget for each member of the Managing Board (cap). Under certain circumstances (particularly when service agreements are terminated for due cause or when members of the Managing Board resign before a tranche's term has expired), entitlements of members of the Managing Board may expire under the LTI program.

The individual LTI budget in relation to fiscal year 2017 amounts to EUR 54 thousand for Yves Müller and EUR 569 thousand for Ingo Wilts. In the case of Yves Müller, the LTI budget is determined on a pro rata basis from the start of his Managing Board activities in 2017. The individual LTI budget in relation to fiscal year 2017 amounted to EUR 900 thousand for Mark Langer and EUR 592 thousand for Bernd Hake.

The individual LTI budget in relation to fiscal year 2018 amounts to EUR 654 thousand for Yves Müller and EUR 638 thousand for Ingo Wilts. The individual LTI budget in relation to fiscal year 2018 amounted to EUR 900 thousand for Mark Langer and EUR 683 thousand for Bernd Hake.

The individual LTI budget in relation to fiscal year 2019 amounts to EUR 700 thousand for Yves Müller and EUR 711 thousand for Ingo Wilts. The individual LTI budget in relation to fiscal year 2019 amounted to EUR 980 thousand for Mark Langer and EUR 716 thousand for Bernd Hake.

The individual LTI budget for fiscal year 2020 amounts to EUR 700 thousand for Yves Müller, EUR 675 thousand for Dr. Heiko Schäfer and EUR 730 thousand for Ingo Wilts. In the case of Dr. Heiko Schäfer, the LTI budget is determined on a pro rata basis from the start of his Managing Board activities in 2020. The individual LTI budget for fiscal year 2020 amounted to EUR 990 thousand for Mark Langer.

Share-based compensation component for the fiscal year 2020 (active Managing Board members as of December 31, 2020)

	Yves Müller Spokesperson of the Managing Board	**Ingo Wilts** Member of the Managing Board	**Dr. Heiko Schäfer** Member of the Managing Board	**Total**
Fair values for the performance share plan (LTI 2020–2022) when granted (in EUR thousand)	645	673	358	**1,676**
Number of virtual shares on the grant date (LTI 2020–2022)	17,015	17,744	16,125	**50,884**
Total cost of share-based compensation (in EUR thousand)	104	66	75	**246**
Provision				**1,515**

Share-based compensation component for the fiscal year 2019 (active Managing Board members as of December 31, 2019)

	Mark Langer Chairman of the Managing Board	**Yves Müller** Member of the Managing Board	**Ingo Wilts** Member of the Managing Board	**Total**
Fair values for the performance share plan (LTI 2019–2021) when granted (in EUR thousand)	776	554	563	**1,893**
Number of virtual shares on the grant date (LTI 2019–2021)	16,073	11,481	11,666	**39,220**
Total cost of share-based compensation (in EUR thousand)	216	132	152	**500**
Provision				**2,222**

The target weighting, the target values, the actual values and the degree of target achievement for the individual target components for the LTI tranche for 2017 to 2019 are summarized in the table below.

Target achievement LTI (LTI 2017–2019)

Target component	Target weighting	Target value (based on target achievement of 100%)	Performance corridor (Min/Max)	Actual value	Target achievement
RTSR	33%	2.50%	(10)% to 15%	(26.4)%	0%
ROCE	33%	42%	30% to 57.5%	40%	92%
Employee satisfaction	17%	94	88 to 98	77.4	0%
Performance in the field of sustainability	17%	105	92.5 to 117.5	118.5	200%
Total	**100%**				**64%**

The target weighting, the target values, the actual values and the degree of target achievement (on a preliminary basis) for the individual target components for the LTI tranche for 2018 to 2020 are summarized in the table below.

Target achievement LTI (LTI 2018–2020) on a preliminary basis

Target component	Target weighting	Target value (based on target achievement of 100%)	Performance corridor (Min/Max)	Actual value	Target achievement
RTSR	33%	2.50%	(10)% to 15%	(43.6)%	0%
ROCE	33%	42%	30% to 55%	37.4%	81%
Employee satisfaction	17%	90	80 to 100	81.3	57%
Performance in the field of sustainability	17%	105	92.5 to 117.5	122.3	200%
Total	**100%**				**70%**

Performance-related special compensation for Yves Müller

Following Mark Langer's departure in July 2020, Yves Müller, in addition to his position as Chief Financial Officer (CFO), assumed the position of Spokesperson of the Managing Board and thus responsibility for part of Mark Langer's former duties (Corporate Strategy and Communication departments, as well as the Group's own retail business and wholesale) until Daniel Grieder's arrival as Chairman of the Managing Board (expected on June 1, 2021). Against this background, the Supervisory Board has decided to grant a performance-related bonus of up to EUR 600 thousand for the additional duties and responsibilities at the sole discretion of the Supervisory Board. An instalment of EUR 200 thousand has already been paid out together with the salary for the month of September 2020.

Pension provision and provision for surviving dependents

All members of the Managing Board have received pension commitments, as agreed in individual contracts.

All active members of the Managing Board have been granted contribution-based pension commitments. The basis for determining the pensionable income is defined as the basic salary under the service agreement. This form of pension commitment also applies to any future appointments to the Managing Board.

An independent compensation expert supported the Supervisory Board in designing the contribution-based pension scheme for the active members of the Managing Board.

For Mark Langer, the former Chairman of the Managing Board, this was in the form of a benefit-based commitment. The amount of the commitment depends on the duration of his appointment to the Managing Board.

Contribution-based pension commitments

For active members of the Managing Board, HUGO BOSS annually pays a pension contribution into an employer's pension liability insurance scheme taken out on the life of the member of the Managing Board. The contribution corresponds to 40% of the pensionable income, which is determined based on the basic salary under the service agreement.

The amount of retirement benefit in this regard corresponds to the amount accumulated by means of the individual employer's pension liability insurance. This results from the total unpaid pension contributions per year plus an annual interest rate depending on the insurance tariff in question. A member of the Managing Board shall be entitled to retirement benefits at or after a fixed age limit of 65 years or if they become permanently unable to work due to illness or accident and leave the Company before reaching the age limit. In the event of the death of the member of the Managing Board, their spouse or registered civil partner under the German Civil Partnership Act and their surviving children shall be entitled to a surviving dependent's pension.

If the member of the Managing Board leaves the Company before becoming eligible for a pension, the benefits shall still become vested if their pensionable service was longer than three years. If the member of the Managing Board leaves the Company before reaching the fixed age limit, the entitlement amount corresponds to the benefits arising from the premium-free employer's pension liability insurance at the time of departure.

Ongoing pension payments are adjusted annually by at least 1%.

Benefit-based pension commitments for Mark Langer, the former Chairman of the Managing Board
A pension commitment exists through the Company for Mark Langer, the former Chairman of the Managing Board, in the form of a benefit-based pension commitment. The amount of the subsequent post-employment benefit is thereby limited to 60% of the pensionable income. A post-employment benefit shall be paid to the surviving dependents in the form of a widow's or an orphan's pension.

In the event that Mark Langer leaves the Company before becoming eligible for a pension, the period by which the benefits become vested is agreed in accordance with the statutory regulations. However, there is no pro rata temporis reduction of the pension entitlement as provided for under legal provisions. For pension purposes, Mark Langer is placed in the position as if the employment had lasted until December 31, 2021 as originally planned.

Ongoing pension payments are adjusted annually by at least 1%.

Supplementary pension plan

In addition, HUGO BOSS offers all members of the Managing Board 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. The contributions from deferred compensation agreements are included in the disclosure about total compensation. Provisions and plan assets are recognized at the same amount.

Pension commitments (in EUR thousand)

	Yves Müller Spokesperson of the Managing Board		**Ingo Wilts** Member of the Managing Board		**Dr. Heiko Schäfer** Member of the Managing Board (since March 16, 2020)	
	2020	2019	**2020**	2019	**2020**	2019
Service cost under IFRS	315	260	280	280	215	0
Pension provision under IFRS	0	0	0	0	0	0

	Mark Langer Chairman of the Managing Board (till July 15, 2020)		**Bernd Hake** Member of the Managing Board (till July 2, 2019)		**Total**	
	2020	2019	**2020**	2019	**2020**	2019
Service cost under IFRS	706	549	0	120	1,516	1,209
Pension provision under IFRS	3,735	6,750	0	0	3,735	6,750

Benefits in the event of early termination of employment
In the event of early termination of the service agreement (without there being due cause for termination of the service agreement on the Company's part), the member of the Managing Board in question shall receive severance pay amounting to their total compensation (including fringe benefits) for the duration of the original remaining term, but for no longer than 15 months, starting from the time the service agreement is terminated (severance payment cap). For these purposes, the total compensation is calculated on the basis of the total compensation received for the last full fiscal year and, where appropriate, on the basis of the predicted total compensation for the current fiscal year.

The service agreements do not provide for any severance payment in the event of premature termination of the service agreement for due cause for which the member of the Managing Board in question is responsible. The service agreements do not stipulate any provisions in the event of regular termination, with the exception of the provisions governing pensions.

The service agreements with the members of the Managing Board each contain a provision under which, in the event of a change of control (acquisition of more than 30% of the voting rights in HUGO BOSS AG), the member of the Managing Board in question is granted an extraordinary right to termination and, if the service agreement is indeed terminated, a severance payment must be made to the respective member of the Managing Board. In principle, the amount of severance pay corresponds to the severance payment to be made in the event of the service agreement being terminated prematurely and is therefore subject to the same severance payment cap. The Company has not entered into any other compensation arrangements with members of the Managing Board or employees in the event of a takeover bid.

Total compensation of members of the Managing Board for the fiscal year 2020 under GAS 17

Total compensation (in EUR thousand)

	Yves Müller Spokesperson of the Managing Board		**Ingo Wilts** Member of the Managing Board		**Dr. Heiko Schäfer** Member of the Managing Board (since March 16, 2020)	
	2020	2019	**2020**	2019	**2020**	2019
Basic compensation	641	650	653	700	509	0
Fringe benefits	13	14	12	9	5	0
Total	**654**	**664**	**665**	**709**	**515**	**0**
Special compensation	**200**	**0**	**0**	**0**	**0**	**0**
STI	**411**	**0**	**434**	**0**	**386**	**0**
Multiple-year variable compensation	**645**	**554**	**673**	**563**	**358**	**0**
Thereof LTI 2019–2021	645	0	673	0	358	0
Thereof LTI 2018–2020	0	554	0	563	0	0
Total compensation	**1,910**	**1,218**	**1,773**	**1,272**	**1,259**	**0**

	Mark Langer Chairman of the Managing Board (till July 15, 2020)		**Bernd Hake** Member of the Managing Board (till July 2, 2019)		**Total compensation**	
	2020	2019	**2020**	2019	**2020**	2019
Basic compensation	444	920	0	317	2,248	2,587
Fringe benefits	16	28	0	8	46	59
Total	**460**	**948**	**0**	**325**	**2,294**	**2,646**
Special compensation	**0**	**0**	**0**	**0**	**200**	**0**
STI	**0**	**0**	**0**	**0**	**1,232**	**0**
Multiple-year variable compensation	**0**	**776**	**0**	**0**	**1,676**	**1,893**
Thereof LTI 2019–2021	0	0	0	0	1,676	0
Thereof LTI 2018–2020	0	776	0	0	0	1,893
Total compensation	**460**	**1,724**	**0**	**325**	**5,402**	**4,539**

Benefits granted for fiscal year 2020 under GCGC

Benefits granted (in EUR thousand)

	Yves Müller Spokesperson of the Managing Board				Ingo Wilts Member of the Managing Board			
	2020	**2020 (Min)**	**2020 (Max)**	2019	**2020**	**2020 (Min)**	**2020 (Max)**	2019
Fixed compensation	641	641	641	650	653	653	653	700
Fringe benefits	13	13	13	14	12	12	12	9
Total	**654**	**654**	**654**	**664**	**665**	**665**	**665**	**709**
Special compensation	**200**	**200**	**200**	**0**	**0**	**0**	**0**	**0**
STI	**411**	**0**	**681**	**450**	**434**	**0**	**720**	**461**
Multiple-year variable compensation	**645**	**0**	**1,750**	**554**	**673**	**0**	**1,825**	**563**
Thereof LTI 2019–2021	645	0	1,750	0	673	0	1,825	0
Thereof LTI 2018–2020	0	0	0	554	0	0	0	563
Other	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,910**	**854**	**3,286**	**1,668**	**1,773**	**665**	**3,210**	**1,733**
Pension expenses	315	315	315	260	280	280	280	280
Total compensation	**2,225**	**1,169**	**3,601**	**1,928**	**2,053**	**945**	**3,490**	**2,013**

	Dr. Heiko Schäfer Member of the Managing Board (since March 16, 2020)				Mark Langer Chairman of the Managing Board (till July 15, 2020)			
	2020	**2020 (Min)**	**2020 (Max)**	2019	**2020**	**2020 (Min)**	**2020 (Max)**	2019
Fixed remuneration	509	509	509	0	444	444	444	920
Fringe benefits	5	5	5	0	16	16	16	28
Total	**515**	**515**	**515**	**0**	**460**	**460**	**460**	**948**
Special compensation	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
STI	**386**	**0**	**594**	**0**	**656**	**0**	**1,081**	**700**
Multiple-year variable compensation	**358**	**0**	**1,688**	**0**	**913**	**0**	**2,475**	**776**
Thereof LTI 2019–2021	358	0	1,688	0	913	0	2,475	0
Thereof LTI 2018–2020	0	0	0	0	0	0	0	776
Other	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,259**	**515**	**2,796**	**0**	**2,025**	**460**	**4,016**	**2,424**
Pension expenses	215	215	215	0	706	706	706	549
Total compensation	**1,474**	**730**	**3,011**	**0**	**2,731**	**1,166**	**4,722**	**2,973**

	Bernd Hake Member of the Managing Board (till July 2, 2019)			
	2020	**2020 (Min)**	**2020 (Max)**	2019
Fixed remuneration	0	0	0	317
Fringe benefits	0	0	0	8
Total	**0**	**0**	**0**	**325**
Special compensation	**0**	**0**	**0**	**0**
STI	**0**	**0**	**0**	**467**
Multiple-year variable compensation	**0**	**0**	**0**	**557**
Thereof LTI 2019–2021	0	0	0	0
Thereof LTI 2018–2020	0	0	0	557
Other	**0**	**0**	**0**	**0**
Total	**0**	**0**	**0**	**1,349**
Pension expenses	0	0	0	120
Total compensation	**0**	**0**	**0**	**1,469**

Benefits received for fiscal year 2020 under GCGC

Benefits received (in EUR thousand)

	Yves Müller Spokesperson of the Managing Board		Ingo Wilts Member of the Managing Board		Dr. Heiko Schäfer Member of the Managing Board (since March 16, 2020)	
	2020	2019	**2020**	2019	**2020**	2019
Fixed compensation	641	650	653	700	509	0
Fringe benefits	13	14	12	9	5	0
Total	**654**	**664**	**665**	**709**	**515**	**0**
Special compensation	**200**	**0**	**0**	**0**	**0**	**0**
STI	**411**	**0**	**434**	**0**	**386**	**0**
Multiple-year variable compensation	**12**	**0**	**161**	**131**	**0**	**0**
Thereof LTI 2016–2018	12	0	161	131	0	0
Other	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,277**	**664**	**1,261**	**840**	**901**	**0**
Pension expenses	315	260	280	280	215	0
Total compensation	**1,592**	**924**	**1,541**	**1,120**	**1,117**	**0**

	Mark Langer Chairman of the Managing Board (till July 15, 2020)		Bernd Hake Member of the Managing Board (till July 2nd. 2019)		Total	
	2020	2019	**2020**	2019	**2020**	2019
Fixed compensation	444	920	0	317	2,248	2,587
Fringe benefits	16	28	0	8	46	59
Total	**460**	**948**	**0**	**325**	**2,294**	**2,646**
Special compensation	**0**	**0**	**0**	**0**	**200**	**0**
STI	**0**	**0**	**0**	**0**	**1,232**	**0**
Multiple-year variable compensation	**0**	**357**	**0**	**218**	**173**	**706**
Thereof LTI 2016–2018	0	357	0	218	173	706
Other	**0**	**0**	**0**	**0**	**0**	**0**
Total	**460**	**1,305**	**0**	**543**	**3,899**	**3,352**
Pension expenses	706	549	0	120	1,516	1,209
Total compensation	**1,166**	**1,854**	**0**	**663**	**5,415**	**4,561**

Other compensation components
As of December 31, 2020, no advance payments were made to the Managing Board.

Total compensation of former members of the Managing Board
Bernd Hake left the Managing Board on July 2, 2019. His employment contract ended on February 29, 2020. Up to this point, Bernd Hake received his contractually agreed fixed compensation of EUR 433 thousand. A severance agreement dated September 2019 also provides for payments in the amount of EUR 3,080 thousand in accordance with the employment contract and the agreed severance pay cap, which were due as at February 29, 2020. These are comprised of a severance payment of EUR 846 thousand for the fixed salary for the period from March 2020 to May 2021 as well as a payment in the amount of EUR 1,192 thousand for the short-term incentive program (STI) for January 2019 to May 2021. In addition, the severance agreement includes payments in the amount of EUR 664 thousand for the vested pro-rata long-term incentive program (LTI) compensation for the 2018 to 2020, 2019 to 2021 and 2020 to 2022 tranches. It also includes severance pay for the period from March 2020 to May 2021, in the amount of EUR 338 thousand for pension contributions, and in the amount of EUR 40 thousand for the company car and other fringe benefits.

The entitlements from the LTI tranches for 2016 to 2018 were paid out in March 2020 and entitlements from the LTI tranches for 2017 to 2019 will be paid out in 2021, each at the end of the one-year qualifying period. The final payout entitlement arises from the final target achievement of the target components and the Company's share price during the last three months of the qualifying period.

Mark Langer left the Managing Board on July 15, 2020. His employment contract ended on December 31, 2020. Up to this point, Mark Langer received his contractually agreed fixed compensation of EUR 935 thousand. A severance agreement dated April 2020 also provides for payments in the amount of EUR 978 thousand in accordance with the employment contract and the agreed severance pay cap, which were due as of December 31, 2020. These consist of a severance payment of EUR 950 thousand for the fixed salary for the period from January 2021 to December 2021 and a payment of EUR 28 thousand for the company car and other fringe benefits.

Mark Langer receives a payment based on the actual target achievement for the respective fiscal year for the settlement of the entitlements from the STI for 2020 and 2021. The payment for the STI for 2020 on basis of the actual target achievement of 91% amounts to EUR 656 thousand. The payment for the STI for 2021 is based on a target compensation of EUR 750 thousand, but will be determined based on the actual target achievement in 2021 and will in no case exceed EUR 750 thousand. The payments are made at the same time as the 2020 and 2021 STI payment of the other members of the Managing Board.

The claims from the LTI tranches for 2017 to 2019 and 2018 to 2020 will be paid out in March 2021 and 2022 at the end of the one-year qualifying period. The final entitlement to payment occurs dependent on the final target achievement of the target components. For the LTI tranche for 2017 to 2019, the entitlement amounts to EUR 255 thousand.

The entitlements from the LTI tranches for 2019 to 2021 and 2020 to 2022 are payable as soon as it has been determined that the target for 2021 has been achieved. The final payment claims are based on the average target achievement of the target components for 2019, 2020 and 2021, and for 2020 and 2021, respectively.

Compensation of the Supervisory Board

The compensation of the members of the Supervisory Board set by the Annual Shareholders' Meeting is governed by Art. 12 of the Articles of Association of HUGO BOSS AG. The compensation system was adjusted by resolution of the Annual Shareholders' Meeting on May 27, 2020 with effect from July 30, 2020. Up to this date, the members of the Supervisory Board were compensated in accordance with the previously applicable compensation regulation in Section 12 of the Articles of Association of HUGO BOSS AG. Under this regulation, compensation of Supervisory Board members is split into fixed and variable components. The variable component was measured based on the amount of earnings per share in the consolidated financial statements. The position of Chairman of the Supervisory Board, that of the Deputy Chairman and membership of the Committees were taken into account when calculating the compensation.

According to the newly agreed compensation system, there is no variable component, meaning that the compensation of the members of the Supervisory Board includes only fixed components with effect from July 30, 2020. The compensation consists of two components: a fixed compensation, depending on the position of the respective Supervisory Board member, and additional compensation for their respective work on committees of the Supervisory Board. For example, each ordinary member of the Supervisory Board receives compensation of EUR 80 thousand. The Chairman receives 2.5 times this amount and the Deputy Chairman receives 1.75 times this amount.

Compensation for Supervisory Board function (from July 30, 2020)

Supervisory Board member	Deputy Chairman	Chairman
EUR 80,000	EUR 140,000	EUR 200,000
Base amount	1.75 times the base amount	2.5 times the base amount

In addition, members of the Working Committee, the Audit Committee, and the Personnel Committee will be paid an additional EUR 30 thousand each, and the Chairman of one of these committees will receive an additional EUR 60 thousand each. Members of the Nomination Committee receive an additional EUR 20 thousand. No compensation is paid for the Chairman and members of the Mediation Committee. However, additional compensation will only be paid for the three most lucrative roles on committees, meaning that, for example, if someone is a member of two existing committees and chairman of one of the other committees, membership of the Nomination Committee would not affect their compensation. This regulation leads to the establishment of an individual maximum compensation for each member of the Supervisory Board according to the positions held by the respective member on the committees.

Compensation for membership in a committee (from July 30, 2020)

	Working Committee	Audit Committee	Personnel Committee	Nomination Committee
Member	EUR 30,000	EUR 30,000	EUR 30,000	EUR 20,000
Chairman	EUR 60,000	EUR 60,000	EUR 60,000	–

No further compensation is granted beyond the compensation described above. Moreover, the new system does not provide for a variable compensation component or for attendance fees.

The compensation is still paid out after the end of the Annual Shareholders' Meeting that decides on the approval of the Supervisory Board for the past fiscal year in question. Members of the Supervisory Board who have only been members of the Supervisory Board or a committee for part of the fiscal year are paid compensation proportionately for each month started of their office. Members of the Supervisory Board are reimbursed expenses incurred in connection with the performance of their duties. Any VAT is reimbursed by the Company if the members of the Supervisory Board are entitled to provide the Company with a separate invoice for VAT and exercise this right.

The Supervisory Board received total compensation amounting to EUR 1,205 thousand for its activities in 2019. This includes a variable proportion of EUR 450 thousand. For 2020, the total compensation is expected to come to EUR 1,204 thousand.

LEGAL DISCLOSURES

- **Corporate governance statement published on the Company's website**
- **Disclosures under takeover law are made pursuant to Sec. 289a (1), 315a (1) HGB**
- **There are shares in the Company's capital exceeding 10% of the voting rights**

Corporate governance statement

The **corporate governance statement** (pursuant to Sec. 289f HGB) forms part of the combined management report and can be found at the Company's website at **cgs.hugoboss.com**. It is also included on pages 119 to 128 of this annual report.

Disclosures under takeover law

The **disclosures under takeover law** pursuant to Sec. 289a (1) and Sec. 315a (1) HGB, which are part of the audited combined management report, are presented and explained below. As far as the Managing Board is aware, there is no further need for any declarations under Sec. 176 (1) Sentence 1 AktG.

Composition of subscribed capital

The subscribed capital of HUGO BOSS AG is made up of 70,400,000 no-par value registered ordinary shares with an imputed share in share capital of EUR 1.00 each. The shares are fully paid up. All the shares have the same rights and obligations attached to them. Shareholder rights and obligations derive from the provisions of AktG, in particular those in Sec. 12, 53a ff., 118 ff. and 186 AktG.

Restrictions on voting rights or the transfer of shares

Each share confers one vote at the Annual Shareholders' Meeting and determines the shareholders' share of the Company's profits. This does not include own shares held by the Company, from which the Company derives no rights. In the cases in Sec. 136 AktG, the voting right under the affected shares is excluded by law.

Shares in the Company's capital exceeding 10% of the voting rights

On the basis of the voting right notifications received by the Company on or before December 31, 2020 in accordance with Sec. 33, 34 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act], the following direct or indirect shares in the Company's capital reach or exceed 10% of the voting rights:

According to the voting right notifications of Februrary 13, 2020 received from PFC S.r.l., Vicenza, Italy, and Zignago Holding S.p.A., Fossalta di Portogruaro, Italy, PFC S.r.l.directly holds 5.77% of the voting rights pursuant to Sec. 33 WpHG, and pursuant to Sec. 34 WpHG, an additional 9.03% of the voting rights of Zignago Holding S.p.A. has been attributed to PFC S.r.l. In addition, Zignago Holding S.p.A. directly holds 9.03% of the voting rights pursuant to Sec. 33 WpHG, and pursuant to Sec. 34 WpHG an additional 5.77% of the voting rights of PFC S.r.l. has been attributed to Zignago Holding S.p.A. In total, the investments thus exceed 10% of the voting rights. Furthermore, according to the voting right notification of July 3, 2020, 0.78% of the voting rights have been attributed pursuant to Sec. 34 WpHG and another 9.25% have been attributed pursuant to Sec. 38 paragraph 1 no. 2 WpHG to Michael Ashley. In total, these investments thus also exceed 10% of the voting rights. HUGO BOSS AG has not been notified of any other direct or indirect capital investments that reach or exceed 10% of the voting rights.

All **notifications on changes in the share of voting rights held** are available at the corporate website at **financialreleases.hugoboss.com**. In addition, the reportable shares notified in fiscal year 2020 are set out in the annual financial statements of HUGO BOSS AG for fiscal year 2020.

Shares with special rights granting control authority
There are no shares with special rights granting control authority.

Voting right controls for shares held by employees in the Company's capital
There are no voting right controls applicable to employees who hold shares in the capital of HUGO BOSS AG and are unable to directly exercise their control rights.

Appointment and dismissal of the Managing Board
The appointment and dismissal of members of the Managing Board of HUGO BOSS AG is in accordance with Sec. 84 and Sec. 85 AktG and Sec. 31 MitbestG ["Mitbestimmungsgesetz": German Co-Determination Act] in conjunction with Art. 6 of the Articles of Association. In accordance with Art. 6 (1) of the Articles of Association, the Managing Board comprises at least two members. The number of members of the Managing Board is determined by the Supervisory Board pursuant to Art. 6 (2) of the Articles of Association. The Supervisory Board can appoint a Chairman and a Deputy Chairman of the Managing Board. The Supervisory Board can revoke a person's appointment to the Managing Board and appointment to the position of Chairman of the Managing Board for due cause. In accordance with Art. 6 (3) of the Articles of Association, members of the Managing Board may not, as a rule, be older than 60 years of age when they are appointed. They are appointed by the Supervisory Board for no more than five years.

Amendments to the Articles of Association
Amendments to the Articles of Association are made by resolutions passed at the Annual Shareholders' Meeting. Unless prescribed otherwise by the German Stock Corporation Act, resolutions are passed pursuant to Art. 17 (2) of the Articles of Association by simple majority of the votes cast and – if a majority of the capital represented when passing a resolution is required – by simple majority of the share capital represented when the resolution is passed. Pursuant to Art. 20 of the Articles of Association, the Supervisory Board is authorized to make amendments to the Articles of Association that only affect the wording.

Powers of the Managing Board with respect to the issue and repurchase of shares
The Managing Board of HUGO BOSS AG may, with the Supervisory Board's consent, increase the share capital by up to EUR 35,200,000.00 on or before May 15, 2024, by issuing up to 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. However, the Managing Board is authorized, subject to the approval of the Supervisory Board, to exclude the subscription rights of shareholders up to a maximum of 10% of the share capital (a) to avoid fractional amounts, (b) in the case of a capital increase in exchange for contributions in kind, and (c) in the event that the issue price of the new shares in cash-based capital increases is not significantly below the quoted price of the existing quoted shares at the time the issue price is finally determined, which time should be as close as possible to the time at which the shares are placed; whereby in case (c) the shares issued, including any own shares sold under exclusion of subscription rights pursuant to Sec. 186 (3) Clause 4 AktG may not exceed 10% of the share capital either at the time this authorization becomes effective or at the time when it is exercised.

Pursuant to the resolution of the Annual Shareholders' Meeting of May 27, 2020, the Managing Board is authorized on or before May 26, 2025, to acquire own shares of the Company up to a total share of no more than 10% of the share capital outstanding as of May 27, 2020, or, if this value is lower, the share capital outstanding at the time the authorization is exercised. The authorization can be exercised directly by HUGO BOSS AG, by a company dependent on HUGO BOSS AG or in which it holds a majority interest, or by commissioned third parties and permits the acquisition of own shares fully or in partial amounts, once or several times. The acquisition can be made through the stock exchange or a public offer addressed to all shareholders to submit sale offers or through the granting of put options to the shareholders. The authorization also allows for a restriction of the principle of equal treatment of all shareholders and any rights of the shareholders to sell shares to the Company in connection with the acquisition of the shares.

Own shares acquired under this authorization can be sold again through the stock exchange or through an offer addressed to all shareholders (also while excluding subscription rights of shareholders). With the consent of the Supervisory Board, they can alternatively be redeemed as compensation, precluding the subscription rights of the shareholders, for the acquisition of companies and investments in companies, for sale at a price that does not fall materially short of the current quoted price and for the admission of the share to foreign stock exchanges. The Managing Board is also authorized, with the consent of the Supervisory Board, precluding the subscription rights of the shareholders, to offer own shares to present or past employees or board members of HUGO BOSS AG or affiliated companies, to service conversion or option rights or conversion obligations of HUGO BOSS AG or affiliated companies, or to issue a “scrip dividend”. In addition, subscription rights to fractional amounts may be disapplied in the case of an offer to purchase own shares made to all shareholders. By resolution of the Annual Shareholders’ Meeting of May 27, 2020, the Managing Board is further authorized to acquire own shares using equity derivatives.

Change of control regulations

The syndicated loan taken out by HUGO BOSS AG and HUGO BOSS International B.V. and guaranteed by HUGO BOSS AG as well as the bilateral lines of credit contain standard market conditions that grant the contracting parties additional termination rights in the event of a change of control – known as “change of control clauses”.

Compensation agreements

The service agreements of the members of the Managing Board contain a provision under which, in the event of a change of control (acquisition of more than 30% of the voting rights in HUGO BOSS AG), the contracting parties are granted an additional termination right under certain circumstances and, if the service agreement is in fact terminated, the member of the Managing Board must be compensated.
→ **Compensation Report**