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BUSINESS ACTIVITIES AND GROUP STRUCTURE

Since its establishment in 1924, HUGO BOSS has evolved into one of the leading companies in the premium and luxury segment of the global apparel market. Its aim now is to reinforce and expand its position. Headquartered in Metzingen, Germany, and with just under 14,000 employees, the Group generated sales of EUR 2.8 billion in fiscal year 2015 and is one of the most profitable listed apparel manufacturers in the world.

The HUGO BOSS Group is established as one of the market leaders in the premium and luxury segment of the global apparel market. It offers its customers around the world a comprehensive range of high-quality fashion as well as accessories in the womenswear and menswear segments. The Group’s activities revolve around developing and marketing the BOSS core brand, the HUGO brand and the BOSS Green and BOSS Orange brand lines. HUGO BOSS is able to address and enthuse different and clearly defined target groups with its brand diversity, primarily thanks to a comprehensive product range encompassing classic yet modern tailoring, elegant evening wear and sportswear, shoes, leather accessories as well as licensed fragrances, eyewear, watches, children’s fashion, home textiles and writing instruments.

HUGO BOSS engages in targeted marketing activities to enhance its brand appeal and awareness, using classic forms of advertising such as print and out-of-home media. In addition, it reaches out to relevant target groups via digital channels. With the Group’s sustained focus on expanding its own retail business, retail marketing has grown significantly in importance. Sports sponsorship activities focus on premium sports such as Formula 1, golf and sailing that symbolize brand values such as dynamism, perfection and precision. A further key area of the Group’s brand communication is sponsorship of cultural events, where the Group focuses on the common ground that art and fashion share with respect to design, aesthetics and creativity. It also emphasizes these attributes with high-profile fashion events in the world’s fashion capitals to further highlight the desirability and acceptance of the Group’s brands among key target groups, while adding emotional appeal to the HUGO BOSS brand world.

HUGO BOSS works with independent suppliers, mostly in Eastern Europe and Asia, to cover its sourcing requirements. In addition, the Group sources around 20% of its procurement volume internally. The collections are marketed in 125 countries around the world, with Europe as the largest market, accounting for 60% of sales, followed by the Americas (24% of sales) and Asia/Pacific (14% of sales). In addition, 2% of sales are generated from licenses.
Over the past few years, HUGO BOSS has expanded the network of its own retail stores significantly. In fact, 60% of the Group’s sales were generated in this channel in 2015, as a result of a net increase of 72 points of sale owned by the Group to make a total of 1,113 around the world. These include freestanding stores in exclusive retail locations, shop-in-shops operated by the Group in department stores and factory outlets. The e-commerce business also grew in importance in 2015, with customers from a total of 11 countries – Germany, Great Britain, France, Spain, Italy, the Netherlands, Belgium, Austria, Switzerland, the US and China – now able to order articles via the online store. Further expanding this sales channel and linking it to the bricks-and-mortar retail stores was one of the Group’s most important projects in 2015, and should enable HUGO BOSS to offer its customers an even more convenient shopping experience in the future. The wholesale business contributed 38% to Group sales in fiscal year 2015. Wholesale partners include department stores, specialist retailers, which are frequently family-run, franchisees and, to a lesser extent, specialist online retailers. Department stores and specialist retailers sell HUGO BOSS products either in separate shop-in-shops or in a multibrand environment. Franchise partners operate freestanding HUGO BOSS stores in accordance with the Group’s specifications and operate mainly in small markets not addressed by the Group’s own retail business. HUGO BOSS products can be bought at around 6,450 wholesale points of sale.

Group Strategy, General Economic Situation and Industry Development

Legal structure of the Group reflects dual management and control structure

The HUGO BOSS Group is managed by the parent company HUGO BOSS AG, based in Metzingen, Germany, where all of the Group management functions are bundled. HUGO BOSS AG as a German stock corporation has a dual management and control structure. The Managing Board is responsible for the Group’s strategy and its management, while the Supervisory Board advises the Managing Board and monitors its management activities. In addition to HUGO BOSS AG, the Group is made up of 56 consolidated companies that hold sole responsibility for local business activities. Of these, 34 subsidiaries are organized as distribution companies. Aside from a few exceptions, HUGO BOSS AG has complete control over all subsidiaries.
The HUGO BOSS Group is organized by regions, with the business units assigned to three regional organizational units: Europe including the Middle East and Africa, the Americas and Asia/Pacific. The purpose of this structure is to tap market potential and to boost local business. In addition to these three regions, the Group’s license business constitutes a fourth operating segment. Responsibility for the corporate functions is allocated to the individual members of the Managing Board and therefore concentrated at the Group’s headquarters.

In each of the three regional organizational units, the regional director is responsible for implementing the Group’s strategy in the applicable market. Within the regions they are heading, the directors are responsible in close cooperation with the country managers for the regional adaptation of the distribution strategy in the Group’s own retail business and the wholesale business, as well as for the development of sales and earnings. These regional distribution structures strengthen the Group’s proximity to customers, improve responsiveness to market trends and facilitate adjustment to market specifics. They also enable a fast exchange of knowledge through the close integration of the local companies.
USA, Midway
Distribution center

USA, New York
Headquarters Americas, Designstudio Womenswear

Canada, Toronto
Distribution center

AMERICAS

- 1,800 Points of sale
- 226 Own retail stores
- 2 Showrooms

- ~1,800 Points of sale
- 226 Own retail stores
- 2 Showrooms
### Business Activities and Group Structure

#### Annual Report 2015

<table>
<thead>
<tr>
<th>Location</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Germany, Metzingen and surrounding areas</strong></td>
<td>Headquarters, Group and Europe, development and pattern design, production, distribution center</td>
</tr>
<tr>
<td><strong>Poland, Radom</strong></td>
<td>Production</td>
</tr>
<tr>
<td><strong>Turkey, Izmir</strong></td>
<td>Production</td>
</tr>
<tr>
<td><strong>Italy, Morrovalle and Scandicci</strong></td>
<td>Development and pattern design, production</td>
</tr>
<tr>
<td><strong>Switzerland, Coldrerio</strong></td>
<td>Development and pattern design</td>
</tr>
<tr>
<td><strong>Australia, Melbourne</strong></td>
<td>Distribution center</td>
</tr>
<tr>
<td><strong>Hong Kong</strong></td>
<td>Distribution center</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Asia / Pacific</strong></td>
<td></td>
</tr>
</tbody>
</table>

- **~ 5,300 Points of sale**
- **603 Own retail stores**
- **12 Showrooms**

- **~ 500 Points of sale**
- **284 Own retail stores**
- **1 Showroom**
GROUP MANAGEMENT

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

GROUP MANAGEMENT FOCUSES ON PROFITABLE GROWTH

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

KEY PERFORMANCE INDICATORS

To increase the enterprise value, the Group focuses on maximizing free cash flow over the long term. Maintaining positive free cash flow on a lasting basis secures the Group’s financial independence and its solvency at all times. Increasing sales and operating income, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items, are the main levers for improving free cash flow. Strict management of trade net working capital and value-oriented investment activities also support the development of free cash flow.
As a growth-oriented company, HUGO BOSS attaches particular importance to profitably increasing its sales. All activities to raise sales are gauged by their potential to generate an increase in adjusted EBITDA and the adjusted EBITDA margin (ratio of earnings to sales) before special items in the long term. EBITDA was chosen as the most important performance indicator as it is a key driver of free cash flow. Productivity increases in the Group’s own retail business are seen as the main lever for increasing the EBITDA margin. In addition, the Group enhances the efficiency of its sourcing and production activities and optimizes its operating expenses to ensure that they do not outpace sales growth.

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

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

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

### 02|07 Development of Key Performance Indicators (in EUR million)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>2,808.7</td>
<td>2,571.6</td>
<td>9</td>
</tr>
<tr>
<td>EBITDA before special items</td>
<td>594.1</td>
<td>590.8</td>
<td>1</td>
</tr>
<tr>
<td>Trade net working capital</td>
<td>527.6</td>
<td>503.0</td>
<td>5</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>220.3</td>
<td>134.7</td>
<td>64</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>207.6</td>
<td>268.4</td>
<td>(23)</td>
</tr>
</tbody>
</table>

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

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

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

Group planning takes the form of rolling planning over a three-year horizon. It is prepared each year as part of the Group-wide budget process taking into account the current business situation.
Based on the Managing Board’s targets, the distribution companies prepare complete earnings and investment budgets for their respective sales markets or business units. A similar planning model is used for trade net working capital. Taking this as a basis, the development and sourcing units derive medium-term capacity planning. The planning of the business units is centrally tested for plausibility and aggregated into overall corporate planning.

Annual planning is updated at regular intervals to factor in the actual development of business and the existing opportunities and risks in order to allow a forecast of the consolidated earnings that can be expected in the current year. Based on the expected development of cash flow, the Group’s Treasury department prepares a monthly liquidity forecast. This permits early recognition of financial risks and the adoption of measures concerning financing and investment requirements. In addition, liquidity planning differentiated by currency is used as a basis for currency hedging, among other things. → Report on Risks and Opportunities.

Financial Risks

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

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

Group-wide reporting focuses on analysis of early indicators

Investment controlling secures Group’s profitability targets
GROUP STRATEGY

HUGO BOSS has set itself the goals of continued growth and further enhancement of its enterprise value. The basis for this is the Group’s core competence – the development and marketing of high-quality apparel as well as shoes and accessories in the premium and luxury segment. All Group brands are characterized by a unique combination of high-quality craftsmanship and design precision. The Group’s strategy focuses on elevating the BOSS core brand, expanding its market position in womenswear, developing its own retail business with the aim of integrating its bricks-and-mortar stores more closely with its online activities, and achieving global growth. Activities in all four fields of growth are underpinned by the ongoing digitization of the Group’s business model as well as the maximization of operating strength.

HUGO BOSS has identified four main levers for achieving profitable growth. The BOSS core brand is to be elevated by means of product, distribution and communication measures. The brand strength acquired in menswear is to be leveraged to a greater extent than before in womenswear, including shoes and accessories. The expansion of omnichannel offerings will spur continued growth in the Group’s own retail business, online and particularly also offline. Finally, the Group is seeking more of a regional balance than before. The implementation of the various growth initiatives is supported by the ongoing digitization of the Group’s business model. This is being reflected in the fast-growing significance of digital brand communication and transaction offerings. In addition, the Group’s operational strength, particularly related to supply chain management, the product development process and the IT and logistics infrastructure, will provide an important competitive edge.
ELEVATION OF THE BOSS CORE BRAND

The Group reaches out to consumers with its BOSS core brand as well as the HUGO brand. Whereas BOSS collections epitomize authentic and understated luxury, HUGO features progressive looks and a modern, urban flair. The BOSS Orange and BOSS Green lines are positioned beneath the BOSS core brand. BOSS Orange stands for trend-oriented casual wear expressing a laid-back approach to life. BOSS Green offers a collection of sportive elegant casual wear and sportswear characterized by high quality and functionality. With its brand portfolio, HUGO BOSS is able to respond to the diverse needs of different target groups, creating offerings for different occasions.

02|09 HUGO BOSS BRAND POSITIONING

Nuanced brand portfolio addresses different customer needs
Elevation of the BOSS core brand supports increasing verticalization of the brand portfolio

HUGO BOSS is broadening its luxury offering to satisfy its customers’ demand for attractive products in the top fashion and quality segments and thereby to increase its sales. In this way, the Group is adding a complement to its historically grown strength in the premium segment. With the elevation of its BOSS core brand, particularly in markets where the brand has historically been perceived predominantly in a multibrand setting and via its entry-price products, the consistency of the BOSS brand’s global positioning is being reinforced. The Group assumes that it can more or less double the share of BOSS brand sales in the luxury segment, to around 20% by 2020. At the same time, BOSS is gradually withdrawing from entry-price points, which will in future be addressed particularly by HUGO and BOSS Green.

Expansion of BOSS luxury offering

BOSS is reinforcing its competence and credibility in the luxury segment by offering appropriate products and services. The Group benefits from its extensive expertise in craftsmanship by utilizing its own production facilities. Under BOSS Tailored, BOSS offers unique cuts, fabrics of the highest quality and exquisite designs. With the launch of series-produced full-canvas suits made in Metzingen, the brand is additionally highlighting tailoring capabilities of the highest quality. By doing so, it is providing a complement to its range of Made to Measure suits, shirts and, as of 2016, shoes, which mark the pinnacle of the collection in terms of both fashion and prices. In the sportswear segment, BOSS is investing in the quality of materials and workmanship in order to establish offers in the leading edge of fashion. Close alignment of the tailoring and sportswear collections ensures the creation of a uniform brand image and allows mixing and matching elements of both segments.  

Distribution of the BOSS core brand concentrated on controlled retail areas

The elevation of the BOSS brand is also reflected in the Group’s distribution activities. The core brand is being given ever more space at the Group’s own stores compared with the other brand concepts, so that it benefits from the exclusive setting and the quality of the advice and service provided. The Group is also intensifying its control of the brand in the wholesale business by requiring its partners to distribute the BOSS core brand solely in a mono-brand setting, i.e. in shop-in-shops. These shop-in-shops are either still managed by the partner or by the Group itself in the form of the concession model. Category business, i.e. business in product group-specific departments with offerings across multiple brands, is now being addressed solely by HUGO (clothing) and BOSS Green (casualwear). This transition was successfully completed in Europe in 2015 and is planned for the Americas in 2016.

Communication activities supporting emotional brand perception

The reputation of the BOSS core brand shapes the global perception of the overall brand portfolio. Accordingly, the Group focuses its brand communication activities on its core brand, conveying the brand proposition of inspiring customers towards success in an emotional manner. HUGO BOSS focuses here on the quality of its products, fascinating sponsoring partnerships, its brand’s tradition and its advisory competence in the field of fashion. In the digital segment, which accounts for around half of expenditure, the hugoboss.com website forms the core of these activities. In addition, classic print advertising, particularly for womenswear, retail marketing activities targeted at the established flagship store portfolio, fashion shows and sponsorships play important roles.
LEVERAGING BRAND POTENTIAL IN WOMENSWEAR

The Group considers its BOSS core brand in particular to offer a good chance to meet womens’ needs for timelessly modern fashion statements and thus to strengthen its position in womenswear. Under the guidance of Artistic Director Jason Wu it is building on its core skills in high-quality tailoring to design sophisticated and desirable products combined with a feminine aesthetic that express unpretentious luxury. In this connection, the focus is on apparel. In addition to their commercial importance, shoes and accessories play an important role in sharpening the brand’s core and forging closer links between the individual collections. BOSS attaches great importance to diverse wearing opportunities to address all the needs in the life of a modern woman. Based on its core strength in modern businesswear, the brand is accordingly developing attractive offerings in luxury leisurewear, to appeal to customers who apply the same standards of quality and sophistication to the clothing they wear in their leisure time. Beyond the BOSS core brand, HUGO and BOSS Orange also feature womenswear matching their respective brand positioning.

02|10 SALES WOMENSWEAR (in EUR million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>308</td>
</tr>
<tr>
<td>2014</td>
<td>289</td>
</tr>
<tr>
<td>2013</td>
<td>263</td>
</tr>
<tr>
<td>2012</td>
<td>249</td>
</tr>
<tr>
<td>2011</td>
<td>231</td>
</tr>
</tbody>
</table>

The continued growth in 2015 is strengthening the Group in its decision to selectively increase the visibility of the womenswear range in its own retail stores. In accordance with its overall strategy, it is concentrating on the BOSS core brand and has significantly increased its share of the own retail floor space compared with the other brand lines. In particular, womenswear is being given a more prominent position in new or extended stores, which tend to be larger. In these stores, womenswear often occupies around one-third of the total shop floor. At the end of 2015, customers were able to purchase HUGO BOSS womenswear from 300 of the Group’s own retail stores. With the use of global look concepts, great importance is being attached to standardized presentation worldwide. In addition, intensive training for sales personnel reflects the exceptional importance of quality of service in this segment in particular. The development of a special store concept also aims to optimally address female customers’ needs.

Finally, HUGO BOSS has stepped up its communications activities to enhance awareness of its brand in the womenswear market and to position BOSS Woman as an attractive proposition for fashion-conscious female consumers. For example, the brand collections are presented twice a year at the New York Fashion Week. Print campaigns, predominantly placed in premium fashion magazines, and PR activities also help to communicate the unique core of the brand and to establish BOSS as a fashion authority.
HUGO BOSS assumes that by implementing this strategy it will be able to increase the share of sales contributed by womenswear to at least 15% by 2020 (2015: 11%). This means that HUGO BOSS will further strengthen its share of the womenswear market, which is substantially smaller than the Company’s menswear share.

**GROWTH OF THE GROUP’S OWN RETAIL BUSINESS ONLINE AND OFFLINE VIA OMNICHANNEL APPROACH**

Over the past few years, HUGO BOSS has comprehensively realigned its business model to the requirements of the Group’s own retail business. By expanding this distribution channel, the Group is able to present and sell its brands and collections to optimum effect without sacrificing its established wholesale business. HUGO BOSS is responding to growing customer expectations of seamless cross-channel shopping and brand experiences by stepping up its omnichannel activities. The Group assumes that the share of sales accounted for by its own retail business will continue to increase. In particular, it plans to achieve an annual average increase in comp store sales in the mid single digits. On top of this, new openings and takeovers will help to ensure that the Group generates at least 75% of its sales from its own retail business in 2020 (2015: 60%).

### 02|11 Sales by Distribution Channel (in %)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale</td>
<td>53</td>
<td>49</td>
<td>44</td>
<td>41</td>
<td>38</td>
</tr>
<tr>
<td>Own retail</td>
<td>45</td>
<td>49</td>
<td>54</td>
<td>57</td>
<td>60</td>
</tr>
<tr>
<td>Licenses</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
The Group continues to see opportunities for increasing its global market penetration by opening about 10 to 15 new stores each year. Given the breadth and quality of its range, HUGO BOSS is confident of being able to manage larger stores than in the past profitably. In this connection, the main focus will be on expanding the portfolio in metropolitan regions, which shape brand perception and account for the bulk of the global luxury goods business.

In addition to opening new stores, the Group is also considering taking over stores that are currently operated by franchise partners, depending on the attractiveness and growth prospects of the relevant market. The Group’s own management of shop-in-shops currently run by wholesale partners also offers good opportunities to improve the attractiveness of the brand presentation and tap additional sales and earnings potential. However, the commercial significance of new openings and takeovers will decline compared with earlier years, while renovation of existing stores will become significantly more important. Stores are generally renovated after around five years, frequently leading to a substantial increase in economic performance. Retail areas which fall short of the Group’s profitability targets in the medium or long term will be closed or, in the case of shop-in-shops, returned to the retail partner.

Over the past few years, HUGO BOSS has boosted its sales significantly in both bricks-and-mortar retail and in its online business. Moving forward, it will link the two channels more closely to offer consumers a seamless and integrated brand and shopping experience. Following the takeover of the online store front end from the former fulfillment partner and the relaunch of the hugoboss.com website in 2014, the focus in 2015 was on improving services and features in order to optimize the online shopping experience and the ease of use of the store step by step. In the next twelve months, the Group will upgrade the content and look of the hugoboss.com website substantially and make it the central hub for all of the brand’s digital activities. The purpose of this is not only to boost online sales, but also to emotionalize the brand and tempt customers into the stores. To this end, the Group plans to expand omnichannel offerings such as “click & collect” and the ability to order sold-out sizes or products online directly in-store. In order to make this happen, HUGO BOSS will take over substantial parts of the e-commerce value chain in Europe, notably in the areas of IT and logistics, in the early summer of 2016. The Company assumes that in the medium term insourcing will have a favorable impact on profitability.
02|12 MEASURES FOR IMPLEMENTING AN OMNICHANNEL BUSINESS MODEL

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Insourcing of online store frontend</td>
<td>Relaunch of hugoboss.com website online and mobile</td>
<td>Continuous improvement of user experience at hugoboss.com</td>
<td>Insourcing of online fulfillment in Europe</td>
<td>Launch of first omnichannel services in Europe</td>
<td>Continuous expansion of omnichannel services in more markets</td>
</tr>
</tbody>
</table>

A high-performance SAP-based IT structure supports retail management within the Group. Introduced in 2015, the retail merchandise planning (RMP) system provides a fully integrated view of stock flows, thus permitting system-based planning oriented directly to the demand of end consumers. The retail assortment planning (RAP) system used for the first time in the development of the Fall 2016 collection optimizes the product offering based on the capacity of individual stores, the characteristics of the location in question and the individual product life cycle. Finally, a powerful logistics infrastructure ensures timely and accurate delivery to the Group’s own points of sale as well as wholesale partners. In operation since 2014, the flat-packed goods distribution center located close to the Group’s headquarters has particularly boosted the speed of the supply chain in Europe and improved the efficiency of key handling processes.

Based on its established customer relationships in the premium and luxury apparel segment, built over decades, and its brand attractiveness, the Group is confident that it can continue to offer its department store partners a convincing product range, best-in-class service and a high level of delivery reliability in the future, and thereby increase its market share. In addition, the Group will expand its business with specialist online retailers selectively and setting the bar high for the quality of the brand presentation. This will leverage economies of scope and provide access to new consumer groups. However, takeovers will put pressure on sales growth in the wholesale business. Moreover, HUGO BOSS assumes that its business with specialist stores, which are frequently owner-operated, will contract. All told, it therefore expects a decline in the share of Group sales contributed by wholesale.
LEVERAGING GLOBAL GROWTH POTENTIAL

HUGO BOSS has become very well known around the world thanks to the appeal of its brands and its early entry into international markets, particularly through franchise partners. The Company sees substantial opportunities to exploit this brand perception even more extensively in the coming years than it has done in the past, and in particular to significantly increase its penetration in fast-growing markets where the Group’s presence is still relatively weak. To this end, the Group will mainly continue to expand its own retail business. Overall, the share of non-European sales is expected to rise in the medium term.

**02|13 SALES BY REGION** (in %)

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia/Pacific</td>
<td>15</td>
<td>15</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Americas</td>
<td>22</td>
<td>24</td>
<td>24</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Europe&lt;sup&gt;1&lt;/sup&gt;</td>
<td>61</td>
<td>59</td>
<td>60</td>
<td>61</td>
<td>60</td>
</tr>
<tr>
<td>Licenses</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

<sup>1</sup>Including Middle East and Africa.

However, Europe will remain the Group’s largest sales market in the future. To ensure this, the Group is driving the process-related, organizational and cultural transformation of its business model towards a stronger focus on own retail - both in bricks-and-mortar stores and online. By expanding its own stores and shop-in-shops, it is strengthening the homogeneity and perceived value of its brand presentation and increasing its attractiveness both to local consumers and to the growing number of non-European customers who visit the region as tourists. Comprehensive process changes, particularly in the areas of merchandise management, retail operations and customer service, are additionally strengthening the organization’s retail competence. In addition, the change in the wholesale distribution strategy implemented in 2015 has enhanced the image of the BOSS core brand in particular. Apart from expanding its market position in traditional core markets such as Germany, Great Britain, France and the Benelux countries, the Group sees attractive growth opportunities in Eastern Europe including Russia and in the Middle East. HUGO BOSS will increase its direct control of brand image in the latter two markets in 2016.
In the Americas, HUGO BOSS enjoys a positive perception associated with a European lifestyle. In addition to a modern design characterized by slim cuts, HUGO BOSS is seen as being highly reliable with respect to fit and quality as well as offering an attractive value proposition. In order to safeguard the long-term appeal of its brands, HUGO BOSS pays particular attention to optimizing its distribution activities in the United States to reduce its exposure to structurally heavy discounting in the market environment as far as possible.

In own retail, the Company is investing in improving the shopping experience, including launching omnichannel services and aligning core processes with Group-wide best practices. In the wholesale segment, the Group wants to operate more HUGO BOSS shop-in-shops itself to improve the quality of its brand presentation. Similarly, distribution of the BOSS core brand in the wholesale channel is to be confined to this format. Finally, in the course of improvements in inventory management, the Group is seeking to significantly scale back the presence of its brands in wholesale off-price channels and to largely confine the sale of goods from earlier seasons to outlets which it operates itself.

The steady growth of the middle class and the expected accompanying increase in purchasing power for premium and luxury goods offers HUGO BOSS substantial sales potential in Asia, particularly China. Notwithstanding the challenging market situation in China, the Group is therefore investing in the quality of its retail presence and brand perception. The quality of brand presentation will be further increased by the continuous elevation of its network of stores, with selective new openings, the renovation or relocation of existing stores and individual closures. Process improvements, the expansion of training activities and the implementation of structured, IT-based customer relationship management will also improve the shopping experience. In its merchandise offering and communication activities, HUGO BOSS is emphasizing the brand’s core in men’s tailoring, which accounts for a substantially lower share of sales in Asia than in other regions. In addition, there is further potential in luxury sportswear and in womenswear, which appeals to the fast-growing group of fashion-conscious professional women. HUGO BOSS is hoping to stimulate local demand successfully, particularly in China, by harmonizing its price structures step by step both within the region and in comparison with the European and American markets.
EMPLOYEES

The passion for fashion, the creativity and the skill set required to develop innovative technologies, processes and services demonstrated by the almost 14,000 employees working for the HUGO BOSS Group around the world are reflected in unique products and shopping experiences. This means that the employees make a decisive contribution to the success of the Company as a whole. For this reason, the Group positions itself as an attractive employer both for existing employees and for potential new ones. The main task of human resources management at HUGO BOSS is to attract employees, to develop them individually in an international context and to create a working environment which fosters initiative-taking, team spirit and the motivation to perform well. The HUGO BOSS corporate values of quality, passion, respect, cooperation and innovation set the framework.

The core task of global human resources management at HUGO BOSS is to create the environment and oversee the processes that permit employees to act goal-oriented and responsibly in accordance with the Company’s mission statement – “HUGO BOSS inspires people towards success”. This mission statement acts as a guide for employees in their daily work, which is oriented towards joint achievement of the Group’s goals. The five corporate values – quality, passion, respect, cooperation and innovation – form the principles underlying daily working relationships and reflect the culture lived in the Company. Numerous initiatives in human resources management help employees to translate the mission statement into concrete action. For example, additional functions have enhanced the communications platform established in 2014 for sharing innovative ideas about employees’ daily routines. Once again, awards were given in recognition of the best ideas submitted last year. Some of these ideas have already been fully implemented. One of the award-winning ideas entailed a reduction in the volume of waste in T-shirt packaging and received the “HUGO BOSS Sustainability Award 2015”.  

The employees play a crucial role in the achievement of the Company’s goals. Accordingly, human resources management at HUGO BOSS seeks to create an environment that ensures that all employees can make the best possible contribution and develop their potential to the full. To enable this, it is very important to the Company to find out how individual employees view their employer, their working conditions and the duties assigned to them. With this in mind, an anonymous survey among employees at HUGO BOSS AG was conducted for the first time in 2014. The participation rate was 70% and with an overall score of 80%, satisfaction reachd a high level. Last year, workshops were held with all employees and executives to develop action plans aimed at further increasing employee satisfaction; individual measures have already been implemented. In this context, for instance, HUGO BOSS also overhauled its leadership principles. Group-wide workshops were held to ensure that these principles would be implemented in the daily routine. Based on the five defined corporate values, they will enable a uniform Group-wide culture for people management and development.
Branding activities enhance the Group’s attractiveness as an employer

The personnel marketing activities with which HUGO BOSS positions itself as an attractive employer in the job market were continued and enhanced last year. Both the jobs website and the applicant management system were optimized with additional functions, a more intuitive user interface and a stronger international outlook: the HUGO BOSS jobs website now features ten languages, while 23 countries in total are linked to the applicant management system. At the same time, HUGO BOSS is making greater use of social networks to reach out to potential employees. As a result, the Group has been able to further optimize target-group-specific communications and substantially widen the circle of potential new recruits reached. [jobs.hugoboss.com](http://jobs.hugoboss.com)

Human resources work supports strategic focus on Group’s own retail business

Last year, human resources management again helped to align employee structures with the Group’s strategic orientation towards its own retail business. Further work on the content of the Group-wide manual for human resources management in the Group’s own retail business additionally optimized processes for employee recruitment, development and motivation last year. As well as this, the Group stepped up the use of a human resources planning system at its own stores last year. Implementing the system results in a substantial improvement in organizational processes, and by means of a frequency-driven deployment system ensures that the ideal number of employees is available on the shop floor at any given time to maximize the quality of customer service.

In order to offer them clear prospects for their personal and professional development, a specialist career path was developed for the employees in the Group’s own retail business and implemented at the first subsidiaries in 2015. Similarly to the specialist career path available for employees in the Group’s corporate functions, it contains defined development steps within the Group’s own retail business that will allow employees to specialize. This gives them an attractive alternative to a career in management, while retaining the employees within the Group’s own retail business for even longer.

Employee numbers up by 774 in 2015

At the end of 2015, the HUGO BOSS Group had 13,764 employees around the world (2014: 12,990). This was an increase of 774 or 6% on the previous year and reflects last year’s general business performance and the Group’s growing focus on its own retail business.
The number of employees in the Group’s own retail business rose to 5,349 (2014: 4,965). Most of the new hires in this segment were in Europe. At the same time, the Group increased capacity for its omnichannel activities, particularly in digital marketing. With the expansion of its omnichannel activities, the Group is responding to customers’ growing expectations of a consistent and seamless shopping experience embracing brick-and-mortar stores and digital retailing. → Group Strategy

The ratio between employees in commercial positions and employees in industrial functions remained unchanged year on year. At the end of 2015, 9,150 employees (2014: 8,562) or 66% of the total workforce were in commercial jobs, while 4,614 employees (2014: 4,228) or 34% of the total workforce were assigned to industrial activities. → Notes to the Consolidated Financial Statements, Note 10
Corporate culture shaped by international outlook, openness and diversity

HUGO BOSS’ corporate culture is shaped by the international outlook, openness and diversity of its employees. This is reflected in the regional distribution of the workforce. 80% of the Group’s employees were based outside Germany last year (2014: 81%).

Continued high share of women in management

At 59%, women account for the majority of the HUGO BOSS Group’s workforce (2014: 60%). Women held 45% of the positions across all four management levels at the end of December 2015 (2014: 45%). The Managing Board set a target of at least 30% of women in each of the two management levels below the Managing Board to be achieved by June 30, 2017. At the end of 2015, 28% (2014: 27%) of the positions in the first management level below the Managing Board and 45% (2014: 43%) of the positions in the second management level below the Managing Board were held by women. → Corporate Governance Report
HUGO BOSS invests in in-house vocational training to cover its long-term demand for skilled workers, offering a broad range of industrial/technical and commercial apprenticeships as well as combined degree and vocational training courses in collaboration with Baden-Württemberg Cooperative State University (DHBW). Great importance is attached to general and specialized training and development opportunities, incorporating an international dimension. For example, Cooperative State University students are offered international assignments at the Group’s foreign subsidiaries or opportunities to attend one of the DHBW’s partner universities.

The Company had 116 apprentices and Cooperative State University students last year (2014: 101). In 2015, 35 apprentices and Cooperative State University students successfully completed their apprenticeship or degree. At the same time, 25 new apprentices and students began their training.

In addition, a centrally organized trainee program was established last year to secure a pool of potential management talent. The graduates selected take part in specialized, internationally focused training programs in the Group’s own retail business, human resources management or finance & controlling, for example.

In order to identify and attract talent from outside the Company at an early stage, HUGO BOSS works closely with national and international universities. It reaches out to school and college students with numerous company presentations, workshops, tours of the headquarters in Metzingen and presentations at universities by employees from various departments. In this connection, the partnership with Parsons The New School for Design in New York was further intensified last year. The Group also maintains close contact with the faculty of fashion design at the Pforzheim University of Applied Science, the ESB Business School Reutlingen, Central Saint Martins College of Art and Design in London and Bocconi University in Milan. It often uses the contacts established in these initiatives to recruit young talents. In 2015, the Group also established initial contact with young potentials at 15 job fairs.
Over 400 interns had the opportunity to gain practical experience in nearly all HUGO BOSS departments last year. During their stay with the Group, interns also attend events especially organized for them where they have the chance to network and gain insights about the Group beyond their own departments. After the internship, particularly committed and talented interns are given the opportunity to complete their studies with final-year projects within the Group. In 2015, HUGO BOSS mentored almost 30 final-year papers.

The success of the Group’s employer branding activities and intern mentoring is reflected in a further improvement in its position in various employer rankings. For example, the Group further improved its placing among the 100 most attractive employers in Germany in the business & economics and IT categories of the annual independent student survey Universum TOP 100.

HUGO BOSS helps its employees to continuously broaden their knowledge and skills with a systematic human resources training and development program based on a transparent competence model. This is a response to constantly changing market requirements which not only enhances the performance capabilities of the organization as a whole but also fosters the motivation and self-confidence of the individual employees.

In order to assess and clearly document the performance, competencies and development potential of each individual, all supervisors conduct annual feedback interviews with their employees. At these interviews, tasks and personal goals for the year ahead are set and training and development needs to meet these goals are defined. In addition, individuals’ personal development is supported by transfers to other departments or functions either at the Group’s headquarters or at a foreign subsidiary, by expanding their own areas of responsibility or promoting them to specialist or management positions. At HUGO BOSS, good leadership is seen as crucial for business success. For this reason, executives are supported by individual advice and by a broad range of training offerings which helps develop their personal, methodological, specialist and leadership capabilities.

By the introduction of a specialist career path that complements the management career path, HUGO BOSS has enabled particularly capable and talented employees to build their knowledge along transparent development stages on a specialist track. Clearly defined job descriptions and the use of external salary benchmarks ensure transparent and targeted development of the financial rewards. Employees following the specialist track are offered a Senior Excellence Program tailored to the requirements of specialist careers which provides them with ideal professional and methodological support in their new role. The Senior Excellence Program was also rolled out at subsidiaries outside Germany for the first time in 2015.

Employees in all departments are able to take part in needs-based continuing professional development through which they can improve their day-to-day performance and build their personal and professional skills beyond the requirements of their present position. For example, the Company offers a wide range of classroom training courses covering such matters as project management, negotiation skills and communication. The training concept for customer service in the Group’s own retail business was fundamentally revised last year. In addition, a mystery shopping program is used to assess the practical application of the learnings, allowing the success of the training to be quantified. In addition to the classroom
training courses, online training is increasingly being used in the Group’s own retail business for self-managed and flexible professional development. This enables knowledge to be imparted on a standardized, market-oriented and sustainable basis in areas such as sales and customer service as well as product and finishing details, making a decisive contribution to first-class customer advice in HUGO BOSS stores around the world.

Last year, employees across the Group successfully completed just under 56,000 web-based training courses (2014: 46,000). The online training portfolio is available in 15 languages.

HUGO BOSS attaches great importance to helping its employees find a healthy work-life balance. An extensive support program is available for young families. To make working hours more flexible, the conditions for a home office program were put in place last year. The program will be available to HUGO BOSS AG employees from 2016 onwards. Moreover, employees are able to take part in a wide range of different sporting activities including using the Group’s own gym. Nutritionists, balanced menus at the campus restaurant and the annual Health Day also contribute to personal well-being and help improve each individual employee’s performance capabilities. → Sustainability

In order to ensure its employees’ safety at the workplace, HUGO BOSS has set itself the goal of defining a Group-wide health and safety standard. A permanent feature of health and safety management is that employees’ workplaces and corporate processes are regularly examined and evaluated for potential risk and modified if necessary. Employees of HUGO BOSS AG also already attend regular training courses on occupational safety. A global health and safety standard was defined for the Group’s own retail business last year, with employees in individual markets being given online training in the relevant subject matter. This training is to be rolled out across the Group’s entire own retail business in 2016.

The HUGO BOSS Group’s remuneration system is designed to ensure that employees receive fair and transparent compensation and promotes a culture of performance and dedication. Remuneration is based on clearly documented job descriptions. Employees in Germany with collectively negotiated wage agreements are remunerated on the basis of the collective agreements of the Südwestdeutsche Bekleidungsindustrie (Southwest German Textile Industry). Personnel assigned to retail activities are remunerated in accordance with the collective agreement for the German retail industry. Employees in retail and distribution receive a fixed salary and a variable component that is tied to quantitative targets. For instance, the remuneration of employees in the Group’s own retail stores is linked to the achievement of service standards and guidelines defined as standard throughout the Group. In addition, reaching targets set for specific retail indicators creates shared incentives for the employees of the individual stores. Employees who do not have collectively negotiated wage agreements receive a basic salary plus a bonus, of which half is linked to Group targets and half to the achievement of qualitative and quantitative personal goals. In addition to financial components, the Group targets also include sustainability-related elements which are measured on the basis of sustainability rankings. The remuneration system for executives on the two levels below the Managing Board also include long-term Group targets based on sales and operating earnings over a period of three years, thus offering long-term incentives. All employees share in the Group’s success through an annual employee bonus that is linked to the achievement of certain internally defined Group targets.
HUGO BOSS makes an important contribution to providing for its employees after retirement, offering them a wide range of company pension schemes. First, the Group takes out employer-funded direct insurance for all employees who have been with the Group for more than six months. In addition, it encourages employee-funded deferred compensation by providing an additional subsidy over and above that required under the collectively negotiated agreements.

In addition to the contractually defined salary components, employee benefits include a travel allowance and access to the art and cultural offerings sponsored by the Group.
RESEARCH AND DEVELOPMENT

Season for season, HUGO BOSS competes in the global apparel market, creating collections that meet customers’ high demands on design, comfort, fit and craftsmanship. The members of the research and development teams make a decisive contribution to rendering the Group’s innovativeness and design skills visible in modern, contemporary, high-quality products. With continuous improvements in production techniques, they also help to boost the efficiency and sustainability of the total manufacturing process. Innovation therefore plays a central role in the Company’s success and is firmly anchored as one of five values in its mission statement.

At HUGO BOSS, research and development (R&D) refers to the product development process, which involves the transformation of a creative idea into a marketable product. The Group’s R&D activities comprise product design, pattern design and technical product development. The work of the R&D teams is particularly evident in the use of new types of materials, innovative patterns and production techniques that enhance both quality and efficiency. The focus of development activities at HUGO BOSS is on satisfying customers’ exacting demands, not only on quality, fit and consistent brand management but also on excellent and innovative design.

Innovation and development work is organized at HUGO BOSS across the five development centers in Metzingen (Germany), New York City (USA), Coldrerio (Switzerland), Morrovalle (Italy) and Scandicci (Italy). At its Group headquarters in Metzingen, the Company leverages its many years of experience in industrial textile manufacturing to achieve trend-setting creative and technological product developments in the core business of classic tailoring as well as leisure and sportswear. Since the appointment of Jason Wu as Artistic Director, some of the BOSS womenswear collections have been created at a design studio in New York. The Coldrerio competence center is not only in charge of the development of the textile product groups shirts, ties and knitwear but also has overarching responsibility for shoes, leather accessories and bodywear. The Italian locations in Morrovalle and Scandicci focus on the development of shoes and leather accessories.

The Group’s organizational structure is geared towards very close coordination of the various steps of the product design and development process. This creates direct links between the creative departments and the product divisions responsible for pattern design and technical product development as well as sourcing and production activities, ensuring direct communication between all those involved in product development and efficiency gains measured in terms of quality, speed and cost.
Creative management marks the beginning of the production development process. The work of the design teams includes defining the collection statement, designing the color, theme, shape and fabric concepts and setting the targeted price points. The first step in the development process of a new collection entails defining the pieces of content required. To this end, HUGO BOSS analyses its points of sale on the basis of various shared characteristics such as local purchasing power, climate and the brand environment. The collection modules identified on this basis provide the framework for the development of a new collection. In addition to a sell-through analysis of the reference season, development is also influenced by new color and material trends as well as ideas for innovative production techniques which the design teams gather at specialist trade shows. They also seek inspiration, for example, from architecture, design and art but also from new technologies as well as social and economic trends. To detect fashion trends at an even earlier stage, the design teams also make limited use of external advisors such as trend scouts.

The BOSS Womenswear Spring/Summer 2016 collection has been inspired by the “form follows function” ideals of the Bauhaus movement. Materials with a wealth of contrasts, abstract prints in strong colors and asymmetrical cuts feature throughout the collection. In its Spring/Summer 2016 collection, BOSS Menswear is focusing on multifunction, merging formal and functional wear into a single modern look. With its precision-cut silhouettes, exclusive materials and versatile functions (e.g. high breathability and crease resistance), the specially designed “Traveler Collection” satisfies the demands of the modern man.

Pattern design and technical product development turn creative designs into prototypes

In a second step, the technical feasibility of the design teams’ creative ideas is reviewed by the pattern design department. Technical product development then turns the models into prototypes and tests their suitability for the industrial production process. All this is done at the Group’s own Technical Center in Metzingen, its largest development center. This is also where new production techniques are developed and tested. For example, the Company is increasingly using innovative welding and gluing technologies for hems and seams. In addition, HUGO BOSS gives its products a highly individual and modern look with specially developed dyeing techniques. Orange Dye involves the addition of orange peel to the dyeing process for jeans. In addition to the hand-made effect which this gives the products, Orange Dye is a particularly sustainable dyeing process due to the use of natural materials. In the Overdye process, suits manufactured in the Technical Center from materials specially developed for the Group are “overdyed” in a single piece. The dynamic surface which this process lends to the fabric because it does not fully absorb the dye gives the suit a particularly casual yet very high-quality look.
The prototyping stage is followed by sampling, which involves the production of a sample collection for presentation and sale to international wholesale customers. Finally, the articles are produced and shipped to wholesale customers and the Group’s own retail stores.

**02|19 PRODUCT DEVELOPMENT PROCESS AT HUGO BOSS**

<table>
<thead>
<tr>
<th>RESEARCH AND DEVELOPMENT</th>
<th>SOURCING AND PRODUCTION</th>
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<tbody>
<tr>
<td>Design</td>
<td>Pattern design</td>
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<tr>
<td>Technical product development</td>
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Because the research and development process is right at the beginning of the value chain, it plays a decisive role in the collection’s later success.

The far-reaching possibilities of 3D virtualization are already being used for most product categories to speed up and simplify the creative development processes within the Group. 3D technology is used for tasks ranging from the virtualization of the designers’ preliminary creative ideas to the presentation of the final collection. For example, color and fabric variations as well as trimmings can be displayed virtually as a basis for internal discussion. First prototypes and certain trimmings are made available here using 3D printing. The Group also uses virtual prototypes, digitally produced fabrics and modeled trimmings for the final presentation of the collections. This close cooperation between the development teams makes it possible to develop products not only more quickly but also less expensively and more sustainably due to the reduced need for physical samples.

Looking forward, the broad range of possibilities afforded by virtualization will be used beyond the creative design phase in the sale of the products to business partners and end consumer. For instance, when collections are presented at the global showrooms, 3D virtualization will make it possible to display virtual samples in addition to physical ones to demonstrate color and fabric variations, optimizing the use of resources.

Throughout all stages, seamless collaboration between all those involved, including external suppliers and technology partners, is essential to ensure high product quality and maximize the efficiency of the research and development process. In order to keep abreast of the latest technological advances, HUGO BOSS regularly visits textile machinery fairs and tests the equipment at its development center in Metzingen. For example, a modern cutting machine is in operation at the Metzingen Technical Center. By optically scanning the material properties, it is able to process the markers even of striped and checked fabrics precisely, quickly and completely automatically. As the material is cut on a firm felt base with this technique and no vacuum film is required to fix the fabric, savings can be achieved on materials such as paper and synthetic. At the same time, the markers are placed digitally on the fabric, resulting in greater precision and therefore reduced waste. HUGO BOSS is currently working with its suppliers on an innovative fabric printing process. Known as “re-engineered printing”,

Innovative 3D virtualization and 3D printing accelerate the development process

Ongoing technological enhancements a significant competitive advantage
this process arranges decorative patterns or other motifs on the fabric during printing in such a way that the cutting patterns can be optimized during processing and placed on the material in such a way as to reduce waste.

The HUGO BOSS Group’s creative and development departments are staffed by skilled fashion designers, tailors, shoe and clothing technicians and engineers. In 2015, the head-count in research and development came to 573 employees (2014: 555).

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees</th>
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<tbody>
<tr>
<td>2015</td>
<td>573</td>
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<tr>
<td>2014</td>
<td>555</td>
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<tr>
<td>2013</td>
<td>549</td>
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<td>2012</td>
<td>553</td>
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<tr>
<td>2011</td>
<td>492</td>
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Research and development expenses largely comprise personnel expenses and other operating expenses. In 2015, as in past years, the majority of research and development expenses were expensed as incurred. In addition, production-related development expenses are included in the costs of conversion of inventories. No research and development expenses were capitalized as internally generated intangible assets. Total expenditure across the Group in connection with the creation of collections increased by 6% in the past fiscal year to EUR 65 million (2014: EUR 62 million). At 69%, personnel expenses made up the majority of research and development expenses (2014: 69%). The ratio of research and development expenses to consolidated sales remained unchanged at 2% in the past fiscal year (2014: 2%).
<table>
<thead>
<tr>
<th>Year</th>
<th>R&amp;D Expenses (in EUR million)</th>
<th>R&amp;D Expenses (in % of sales)</th>
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<tbody>
<tr>
<td>2015</td>
<td>$65.4$</td>
<td>$2.3$</td>
</tr>
<tr>
<td>2014</td>
<td>$61.5$</td>
<td>$2.4$</td>
</tr>
<tr>
<td>2013</td>
<td>$58.7$</td>
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<tr>
<td>2012</td>
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<td>2011</td>
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SOURCING AND PRODUCTION

The ability to produce high-quality articles in large quantities efficiently, swiftly and on an industrial scale and to ship them on time to retail partners and the Group’s own stores is a key competitive advantage for the HUGO BOSS Group. The careful selection of suppliers, the most important criterion for which is adherence to strict labor, environmental and social standards, the establishment of strategic supplier relations and compliance with the highest possible technical production standards enables the Group to ensure zero-error, efficient and sustainable sourcing and production processes.

In addition to the high quality which customers around the world expect of the materials and craftsmanship of HUGO BOSS products, the timely availability of merchandise on the shop floor gives the Group a decisive competitive edge. As a company with international production activities and business operations, HUGO BOSS crucially relies on smooth-running, standardized and system-enabled sourcing and production processes. In terms of value, 20% of total sourcing volumes were produced by the Group’s own facilities last year (2014: 20%). They cover a significant part of its classic tailored menswear and womenswear ranges, enabling the Group to safeguard and continuously build on crucial expertise, further develop quality standards and optimize merchandise availability. The remaining 80% of the total value of procurement in 2015 comprised products manufactured by independent contract suppliers or sourced as merchandise (2014: 80%).

The Group’s own production plants are located in Izmir (Turkey), the Group’s largest facility with 3,942 employees in 2015 (2014: 3,613), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). Production activities in Izmir primarily concentrate on the classic tailored range, which constitutes the Group’s core competence. In the menswear segment, this chiefly comprises very high-quality articles such as coats, suits, jackets and shirts. Likewise, all womenswear product groups are produced in Izmir. The Metzingen site is used as both a development and a production facility. Located on the campus of the HUGO BOSS headquarters, the Technical Center primarily produces suits, jackets and trousers in small series in addition to prototypes, samples and individual orders. In particular, HUGO BOSS tailors its Made to Measure suits in Metzingen. The Radom and Morrovalle facilities mainly produce shoes.

The plant in Cleveland (USA), which previously mostly produced suits for the American market, was sold to another apparel manufacturer in the first half of 2015 on the basis of a detailed site analysis. This also included the transfer of all employees. Cleveland’s production volume was relocated to the Group’s own production facilities and existing Group suppliers. Consequently, the Group’s sourcing activities are now concentrated on a smaller number of larger facilities. At the same time, it is able to secure important production expertise. In this context, capacity at the Group’s own facility in Turkey was expanded by the construction of a new production hall, with additional employees recruited accordingly.
HUGO BOSS’ sourcing activities cover a wide range of apparel products and accessories in the premium and increasingly also in the luxury segment. To ensure the excellent craftsmanship and optimum availability of its products, the Company works with a stable network of experienced, specialized suppliers. Last year, the HUGO BOSS Group had active supply relationships with 257 contract manufacturers and suppliers of merchandise (2014: 281). The number of these partners was reduced again by optimizing capacity utilization. In the interests of minimizing risk, the procurement volume is spread over a global network of suppliers to reduce exposure to individual procurement markets and production facilities as far as possible. Consequently, the largest independent supplier accounted for only 9% of the Group’s entire procurement value (2014: 8%).

HUGO BOSS works solely with carefully selected partners that satisfy its stringent requirements. Adherence to strict labor and social standards is the prerequisite for the establishment of a business relationship. These are verified either on the basis of disclosures made by the supplier itself or on-site audits of the production facilities. In addition, HUGO BOSS’ social standards form a fixed element of the contracts signed with suppliers, compliance with which is reviewed in regular on-site audits. The results of the social audits are incorporated in the semi-annual supplier assessments and thus form the basis for the future collaboration with the partner in question. In addition to observance of strict social and labor standards, the ability to satisfy the high quality and craftsmanship requirements constitutes a further important criterion in the selection of suppliers. The supplier’s reliability, technical equipment and innovativeness, financial strength and cost efficiency are also taken into account.

HUGO BOSS differentiates its sourcing activities into raw materials, in-house production, contract manufacturing and purchased merchandise. The raw materials which it sources mainly comprise fabrics as well as trimmings such as lining, buttons, thread and zippers. Cotton, wool and leather are the most frequently used materials. The Group purchases most of the raw materials used in its own production or contract manufacturing from suppliers in Europe. Fabrics are predominantly sourced from long-standing partners in Italy.

For products made under contract manufacturing arrangements, HUGO BOSS provides suppliers not only with the patterns but also with the fabrics and trimmings required. Coats, sportswear jackets, suits, jackets and trousers are primarily made under contract manufacturing arrangements. These are product groups that demand particularly advanced production skills and technical facilities of the supplier. HUGO BOSS mainly works with companies in Eastern Europe in these segments.

Sportswear products are primarily sourced as merchandise and include items such as T-shirts, polo shirts and jeans. With this kind of sourcing, the suppliers are mostly based in Asia, Eastern Europe or North Africa and are provided with the necessary patterns by HUGO BOSS. However, they independently source their own raw materials, i.e. fabrics and trimmings.
With the exception of the classic shoe collection that is produced at the Group’s own factories in Italy and Poland, shoes and leather accessories are mainly sourced from business partners in Asia and Europe. Particularly high-quality leather accessories such as articles for the menswear “Signature” range or bags and accessories for the iconic “Bespoke” womenswear range are produced by leather specialists in Italy and finished with hand-made details.

In value terms, Eastern Europe (including Turkey) accounts for 46% of the total procurement volume (2014: 47%) and thus remains the Group’s most important procurement market. The Group’s own factory in Izmir plays a key role here, accounting for 15% of the total volume sourced (2014: 15%). 35% of products are sourced from external suppliers in Asia (2014: 33%). Within Asia, China is by far the most important procurement market. The remaining goods are sourced from Western Europe (11%; 2014: 11%), North Africa (5%; 2014: 5%) and the Americas (3%; 2014: 4%).

The Group regularly reviews the regional optimization of its sourcing activities to respond effectively to any increase in costs in procurement processes, particularly as a result of higher wage expenses, and to react with optimum effect to any changes in industrial structures and production capabilities in individual markets.

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<tr>
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<th>2015 (2014)</th>
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<td>Americas</td>
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The Group has a keen interest in maintaining long-term strategic relationships with its suppliers. Close consultation between producers and the HUGO BOSS Group’s technical development department is crucial for ensuring a swift response to any market changes and for shortening lead times. Thus, suppliers’ production capabilities are factored into the product development process at a very early stage. Feedback from suppliers on the fabrics and patterns used in past collections is taken into account in new designs. Innovative processing methods are repeatedly tested in close collaboration with production partners to ensure the excellent quality of craftsmanship for which HUGO BOSS products are known all over the world. In the event of positive test results and economic viability, these processes are then rolled out for standard use by the partner facilities.
The Group is also continuing to intensify its joint activities with its main suppliers in the area of sustainability management. For example, the first ever HUGO BOSS Supplier Day was held for strategic suppliers at the Izmir facility last year. At this event, the HUGO BOSS sustainability program, which is to be implemented in conjunction with the suppliers, was presented. The resultant requirements, e.g. in connection with ensuring social standards, establishing professional environmental management and minimizing the use of chemicals and other potentially hazardous substances in production, were outlined together with an elaboration of the possibilities which HUGO BOSS has for assisting its partners in the implementation of the program. ► Sustainability

In order to optimize the IT systems underpinning the planning, production and logistics processes, the HUGO BOSS Group’s suppliers have been integrated via a uniform planning and collaboration portal. The web-based supplier platform simplifies communications and the exchange of data with the production partners, increasing the transparency of the flows of goods along the entire supply chain. Suppliers can also enter their production capacity in the system, making it possible to bundle orders according to needs and to reserve the required capacity with the supplier cost-effectively at an early stage. Real-time status reporting means that orders can be automatically managed according to urgency, so that goods can be delivered on schedule.

HUGO BOSS sets exacting standards for the quality and craftsmanship of its products. With their internal quality management, the production facilities make a decisive contribution to ensuring that these requirements are satisfied. The partners are furnished with standardized quality and production manuals clearly documenting these requirements to ensure that the quality assurance activities performed by suppliers meet the standards set by HUGO BOSS. In addition, the most important quality-related processes are described in a process manual for the Group’s own production plants. Moreover, employees at the production facilities regularly receive training in cutting techniques, production management as well as production technology from HUGO BOSS personnel. This ensures that the products satisfy the Group’s high quality and design standards. Wherever economically viable, production processes are automated to minimize tolerances. Compliance with manufacturing standards is ensured using permanently installed, technology-enabled controls that are always performed at specific steps along the production line. In addition to the permanently installed control levels, regular samples are taken to monitor the other steps of the process. Quality criteria are included as an inherent part in the semi-annual supplier assessments.
SUSTAINABILITY

As one of the leading companies in the premium and luxury segment of the apparel industry, HUGO BOSS also assumes responsibility in the area of sustainability. The purpose underlying the credo “We act responsibly” is to create added value – for employees, customers, business partners, shareholders and society. Sustainable business activity is viewed by HUGO BOSS as an opportunity for ensuring both the high quality expected by customers and socially and environmentally friendly production. The Group thus creates an important prerequisite for customer loyalty and innovativeness, two key determinants of its success. At the same time, sustainable business activity helps to enhance the business model in line with future requirements, optimize the efficient use of resources and processes along the value chain and develop the Group’s employees in the long term.

HUGO BOSS’s sustainability strategy addresses six main fields of action: We, Environment, Employees, Partners, Products and Society. These areas provide the framework for the aspects of sustainability relevant for HUGO BOSS:
The Group aims to continuously improve in all fields of action and, accordingly, has set itself ambitious objectives. As a means of measuring the Company’s progress and the attainment of these objectives, HUGO BOSS is working to achieve inclusion in the Dow Jones Sustainability Index, among other things. Its ranking improved appreciably in 2015. Sustainability ratings are used as internal benchmarks.

As part of its sustainability management activities, HUGO BOSS maintains a constructive dialog with its stakeholders. Facing up to the expectations of its main stakeholders, identifying different requirements and jointly discussing challenges and possible responses to them – all these aspects are viewed by HUGO BOSS as business necessities and as an opportunity to create additional value for both sides. In 2015, these include concrete projects with the International Union for Conservation of Nature (IUCN), the Fair Labor Association (FLA) and the Natural Capital Coalition. In Germany, HUGO BOSS joined the Federal government’s Textiles Partnership. Moreover, it maintains a dialog with sustainability-oriented analysts and investors.

In 2015, a comprehensive materiality analysis was performed to systematically address the requirements of internal and external stakeholders, make the key strategic themes affecting business opportunities and risks even more tangible for HUGO BOSS and apply them more effectively to the defined fields of action. The results and methods are described in greater detail in the 2015 Sustainability Report.

Two Sustainability Days, held for the first time at the facilities in Metzingen and Coldererio (Switzerland), helped to raise employees’ awareness of sustainability. They are to be held twice a year in the future and will focus each time on one of the fields of action defined in the sustainability strategy. In 2015, the focus was on the “products” field of action. The “HUGO BOSS Sustainability Award” for employees was introduced for the first time in 2015, rewarding the most innovative idea for reducing waste in the product portfolio.

Environmental protection is given high priority at HUGO BOSS. The purpose of environmental management is to continuously reduce the Group’s environmental footprint along the entire value chain – from the sourcing of raw materials and the development and manufacture of products through transportation, retail and marketing.

In this way, the Group pursues the long-term objectives of minimizing the effects of climate change, making sparing use of natural resources by means of intelligent systems and environmentally friendly technologies and contributing to the preservation of biological diversity. In this context, HUGO BOSS is pursuing the goal of reducing its specific CO₂ emissions (Scope 1 and 2 Greenhouse Gas Protocol) in relation to sales by 30% by 2020, in comparison with 2010. The action package also includes the use of renewable sources of energy and numerous initiatives for improving energy efficiency. Additional measures aim at achieving further cuts in the CO₂ emissions generated in the logistics and distribution processes (Scope 3). Moreover, HUGO BOSS has set itself the goal of implementing continuous improvements in building efficiency and is seeking acknowledged sustainability certification for its own new buildings.
In 2015, HUGO BOSS published an environmental guideline describing in detail the principles of environmental management in all relevant functions. Further detailed information can also be found in our annual sustainability reports and on the Group website.

A key element of the value-based corporate culture at HUGO BOSS is the Code of Conduct, which forms the basis for unimpeachable legal and ethical conduct in day-to-day business activities and is therefore binding on all employees. The Code governs relations within the Group as well as with customers, suppliers and service providers. It contains rules on conflicts of interest, health and industrial safety as well as corruption and bribery.

Diversity – in terms of nationality, gender, religious and political views, sexual orientation, age and possible disability – has a high status for HUGO BOSS as an internationally active and oriented company. For the Group this means a non-discriminatory working environment and equal opportunities for all employees. The Group underlined the importance it attaches to diversity by becoming a signatory to the “Charter of Diversity” in 2008.

HUGO BOSS is a member of eight years’ standing of the Germany-wide “Erfolgsfaktor Familie” (“Success Factor Family”) network. The Group encourages employees to seek an appropriate balance between family and work by offering a flexible family support model. Employees at the Group’s headquarters in Metzingen can use places reserved at two child daycare centers and have the option of receiving financial support for alternative childcare arrangements. Annual health days, a balanced and healthy selection of menus in the campus restaurant and a wide range of sports offerings are available to all employees at the Company’s head office. In recognition of this, HUGO BOSS received the “Corporate Health Award” in 2014 and is hoping to repeat this in 2015.

The Group provides similar offerings at other sites, for example at Coldrerio and the Group’s largest production site in Izmir.
HUGO BOSS pays particular attention to social standards and environmental protection in its partners’ sustainability management activities. Observance of human rights and environmental standards is of central importance to the Group.

It is committed to observing the HUGO BOSS social standards and imposes the same obligation on its suppliers, incorporating it as a fixed part of their contracts. These standards are based on, among other things, the internationally acknowledged core labor standards defined by the International Labour Organization (ILO) and the United Nations Universal Declaration of Human Rights. The social standards are included in the contracts signed with partners, under which suppliers undertake to comply with local laws and observe the prohibition of child labor and forced labor, maximum working hours, humane working conditions, prohibition of discrimination, payment of fair wages, healthy and safe working conditions, freedom of association, collective wage bargaining and responsible care for the environment. The HUGO BOSS social standards constitute the minimum requirements in countries in which there are gaps in local legislation, for example with regard to working hours and wages.

In 2015, HUGO BOSS commenced activities under its membership of the Fair Labour Association (FLA) to ensure compliance with good and safe working and social conditions by partner companies and to enhance internal and external transparency. These activities make it possible, in cooperation with other companies and NGOs, to learn from best practices and work towards improving working conditions in supplier countries. Furthermore, the FLA has initiated projects to further improve the spread of fair compensation, in which HUGO BOSS is participating.

In 2015, HUGO BOSS joined the Partnership for Sustainable Textiles (“Textiles Partnership”) initiated by the German Federal Ministry for Economic Cooperation and Development. It is working on addressing joint challenges in cooperative projects, harnessing synergies and improving underlying conditions in the producer countries with the aid of policymakers.

In addition to its participation in external initiatives, the Group is implementing its own social-compliance-program. Suppliers of raw materials and merchandise as well as contract producers generating a relevant volume of sales with HUGO BOSS are regularly audited to ensure that they comply with the Company’s social standards. Audits conducted by its own team of experts as well as in conjunction with external service partners support suppliers in achieving internationally approved social and environmental standards. In principle, however, HUGO BOSS places emphasis on mutually defined and continuous improvement measures in order to enable long-term partnerships.
HUGO BOSS takes very seriously its responsibility for developing collections which not only meet the highest standards in premium materials, quality standards and product innovation but also pose no ecological or health risks. In this way, HUGO BOSS is able to generate value for the Group, its customers and society as a whole through innovative products. As a basic prerequisite for collaboration, HUGO BOSS asks its suppliers to sign a guarantee of compliance with the Restricted Substances List (RSL). The RSL governs the observance of relevant local legislation on the use of chemicals and other potentially harmful substances in products as well as of the Group’s internal guidelines, which are often more stringent than these legislative minimum standards. These requirements apply to all materials used and substances relevant to the production process. HUGO BOSS supports such preventive measures actively with extensive tests for hazardous substances performed in accredited laboratories that ensure the safety and quality of the products.

Increasing attention is already being paid to selecting sustainable materials in the development of new collections. A further key principle of product responsibility is animal welfare and the protection of biodiversity, e.g. when selecting animal products such as leather, fur and wool. The collections use only a very small quantity of fur products, for example for appliqués and trimmings on collars, hoods and sleeves. HUGO BOSS is opposed to animal testing and inappropriate animal breeding and rearing methods. In line with this, HUGO BOSS will source hides originating solely from sheep, goats, cows or buffaloes in the future. In addition, HUGO BOSS is working on innovative processing methods. In this connection, it has been in dialog with animal welfare and consumer rights organizations for many years about animal welfare issues of relevance for the apparel industry.

The focus in 2015 was on the implementation of a product sustainability strategy with clear goals with respect to animal welfare. These include the procurement of merino and angora wool, fur and down. The corresponding goals are described in the sustainability report.

HUGO BOSS is committed to a defined portfolio of socially relevant themes and initiatives outside the scope of its business. In 2015, a corporate citizenship strategy was developed to give a clear definition of the basic elements of this commitment. Under this strategy, the Group’s vision, mission and values provide the underpinnings for its social engagement. It pursues the aim of supporting people in their personal journeys through life, allowing them to harness their individual potential for success. At the core is access to education as a key to social inclusion and personal success.

For example, HUGO BOSS has forged a long-standing partnership with UNICEF, the child welfare organization of the United Nations, in which it supports education programs in Africa and in Bangladesh. With its “Off Road Kids” foundation initiative, HUGO BOSS is helping street children in Germany to re-integrate with society. In its facility in Izmir, Turkey, the Company works with the local employment office to offer an employment program for women in difficult economic situations and offers vocational training with the prospect of employment in the textile industry. In a partnership with the renowned “Parsons The New School for Design” in New York, young talents in fashion design are also receiving support for their career development. At Filderstadt, the location of HUGO BOSS’s distribution center, the Group is funding a training program at the Filderstadt School of Art to provide young people with guidance in preparing for their future careers.
Moreover, HUGO BOSS can look back on a long tradition of providing assistance in the event of international crises. Thus, for example, various integration projects for refugees were launched in Metzingen in 2015 and will be expanded in 2016. All donation projects must comply with the criteria stipulated in the HUGO BOSS Code of Conduct. In this way, the Group seeks to avoid any conflicts of interest.
FOCUS ON MATERIALITY

In 2015, a comprehensive materiality analysis was performed with the support of internal and external stakeholders to make the key strategic themes relating to business opportunities and risks for HUGO BOSS more tangible and to transfer them increasingly to the defined fields of action. The materiality analysis comprised the following individual steps:

1) an internal review of the current situation
2) consolidation of the sustainability issues of relevance to HUGO BOSS
3) an online survey of internal and external stakeholders
4) interviews with individual stakeholders across all fields of action
5) an internal workshop in the second half of 2015

All relevant Company departments took part in the internal review of the existing situation, during which numerous sustainability issues potentially impacting business success at HUGO BOSS were identified. It was assumed that addressing these themes may mean financial added value and/or be of material importance for the Company’s stakeholders.

In the following step, these issues were reconciled with the requirements of relevant sustainability standards, including the GRI G4 reporting standard, the ISO 26000 management guideline and the valuation criteria defined by rating agencies for assessing ethical/sustainable investments. This was supplemented with benchmark analyses of selected peers as well as a media analysis.

This process identified 40 sustainability issues of relevance for HUGO BOSS along the entire value chain, which were assigned to the three dimensions of governance, environment and society.

Comprising both quantitative and qualitative elements, the survey was targeted at the Company’s internal and external stakeholders. The online survey was used to prioritize the 40 sustainability issues and to assess the Company’s performance. More than 1,200 people took part, a participation rate of 53%. In the innovative survey format, participants were presented with pairs of issues and asked to state which one they considered more important, thus making it possible to reduce the fairly broad range of issues to a manageable core of high-priority and important ones.

On the basis of the survey, nine interviews were additionally held in person with stakeholders from all fields of action, including representatives of selected non-government organizations, SRI investors and the Works Council. The purpose of these individual conversations was to gain a deeper insight into the priority of the individual issues.

The potential impact on HUGO BOSS of the issues considered by the stakeholders to have high priority or medium-term importance over the next three to five years was evaluated in an internal workshop with representatives from all relevant departments in October 2015 and their relevance for the
Group’s business was assessed. This evaluation was based on the contribution and impact of the sustainability themes in terms of:

- a) innovation and growth,
- b) brand value,
- c) resilience and
- d) operating efficiency.

On the basis of the results of the stakeholder survey and interviews as well as the internal analysis of business relevance, the 40 issues were plotted on a materiality matrix and assigned a strategic importance of high, medium or low. Issues classified as having “low strategic intensity” are viewed as “hygiene factors”, which the stakeholders and the Group consider to be fundamental and therefore have to be implemented. These issues are a matter of complying with legal requirements and social standards. On the other hand, issues with a “medium strategic intensity” go beyond the scope of legal requirements and social standards. Issues considered to have a “high strategic intensity” are of particular strategic relevance for the Group’s success in the opinion of all concerned. The results were presented to and approved by the Sustainability Committee with the participation of members of the Group’s Managing Board.

For the purposes of the HUGO BOSS Sustainability Report from fiscal year 2015 onwards, these issues were condensed to form 14 superordinate themes and were validated once again by the Sustainability Committee. The main purpose of this consolidation is to adapt the main issues to internal management methods so that they can be integrated more effectively in corporate processes.
Mitigation of environmental impact through the value chain
Mitigation of environmental impact through HUGO BOSS operations
Mitigation of environmental impact through HUGO BOSS products and services
Fair compensation
Occupational health & safety during manufacturing
Integration of sustainability into corporate structure
Human rights & labor standards in the value chain
Stakeholder dialogue
Employee satisfaction
Ethics & integrity
Biodiversity & animal welfare
Professional development & talent promotion
Customer satisfaction
Social commitment

We
Environment
Employees
Partners
Products
Society

Low strategic intensity
Medium strategic intensity
High strategic intensity