NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2017

General information

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

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

The consolidated financial statements of HUGO BOSS AG as of December 31, 2017, were prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the additional regulations pursuant to Sec. 315e (1) HGB [*Handelsgesetzbuch*: German Commercial Code].

The consolidated financial statements and the combined management report of HUGO BOSS AG, Metzingen, were approved by the Managing Board for submission to the Supervisory Board by a decision of February 20, 2018.

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

Financial Reporting

Adoption of the standards and interpretations of the IASB revised in 2017 does not have any material effects on the presentation of the Group’s results of operations, net assets and financial position. As a result of the standard IAS 7, which was revised and entered into force on January 1, 2017, the user of the financial statements is able to assess changes in the debts in connection with the financing activity.

The following significant accounting standards were not yet compulsory for the fiscal year 2017. The Group expects the following effects to arise from the application of the new accounting standards.

IFRS 9: Financial instruments

In July 2014, the IASB published the final version of the IFRS 9 “Financial instruments”. The standard was adopted by the EU in November 2016 and includes revised guidance on the classification and measurement of financial assets, including guidance on the impairment of financial instruments, and thus replaces IAS 39. The recognition of losses is therefore preferred in the new “expected loss model”, meaning that realized losses and expected losses must be recorded. The HUGO BOSS Group has assessed the effects of the first application of the standard on January 1, 2018, at present. The effects were examined with regard, for example, to the existing currency hedges, intercompany financing, guarantees and the potential additional ECL (expected credit loss) for receivables of the Group. On the basis of the available results of the analysis, HUGO BOSS assumes that the first application of the new standard will only have an immaterial effect on the net assets, financial position and results of operations of the consolidated financial statements. With the first application, derivatives not designated to a hedge relationship will be reported in the FVTPL (fair value through profit or loss) category in the future. The effective part of derivatives designated to a hedge relationship will be reported in the FVOCI (fair value through other comprehensive income) category in the future. Assets in the current LaR (loans and receivables) category will be reported in the AC (amortized cost) category in the future.
IFRS 15: Revenue from contracts with customers
The IFRS 15 “Revenue from contracts with customers” published by the IASB in May 2014 was adopted by the EU in September 2016 and becomes effective for the first time for fiscal years beginning on or after January 1, 2018. The guidance and definitions contained in IFRS 15 will replace the content of both IAS 11 and IAS 18 and the related interpretations in future. The new standard does not make any distinction between different types of contracts and services, instead defining uniform criteria to determine when a performance obligation is to be recognized at a point in time or over time. IFRS 15 prescribes a standardized five-step model for recognizing revenue, which must in principle be applied to all contracts with customers. HUGO BOSS has examined the effects of introducing the standard. Various HUGO BOSS business models particularly Retail, Wholesale and License were analyzed. Results of the analysis show that material revenue recognition adjustments are not required for any of the business models except for the so called “shop fit contribution”, which must be accounted for differently under the new IFRS. Shop fit contributions are grants to wholesale partners to subsidize expenses for store fittings. For periods not impacted by IFRS 15, the grants are reported as “Selling and Marketing” expenses. For periods beginning on or after January 1, 2018, the grants are reclassified as a reduction to revenue. The effect on revenue amounts to a single-digit million euros and is deemed to be insignificant. The first application of IFRS 15 will lead to changes in the balance sheet, such as separate postings for assets and liabilities under contract as well as additional quantitative and qualitative notes to the financial statements. However, the analysis did not indicate any material impact on the consolidated financial statements. The Group will apply the modified transitional approach for the implementation of IFRS 15.

IFRS 16: Leases
IFRS 16 “Leases” provides guidance on recognition, measurement, presentation and disclosure requirements and replaces IAS 17 and the related interpretations. The guidance for recognition by the lessor still makes a distinction between finance leases and operating leases and therefore does not differ materially from the accounting guidance provided in IAS 17. For the lessee, however, no distinction will be made between finance and operating leases in the future. Most of the contracts which were previously categorized as operating leases must be recorded in the balance sheet from January 1, 2019. In accordance with IFRS 16, the lessee discloses a leasing liability of the value of the future leasing payments in the balance sheet as well as a corresponding right-of-use asset. As of December 31, 2017, the Group has payment obligations from non-cancellable leases (including reasonably certain extension options) of EUR 1,389,244 thousand. A provisional assessment indicates that these agreements meet the definition of a lease agreement pursuant to IFRS 16 and that the Group would have to disclose corresponding discounted right-of-use assets and lease liabilities in the balance sheet. Since the Group is awaiting an assessment of the option for the capitalization of service components, short-term leases and low-value leased assets, it is not yet possible to make a final statement regarding the effects on the consolidated net income. According to the current status of the analysis a positive effect in the low three-digit millions range is expected for the EBITDA before special items. Initial analysis showed a positive effect on EBIT in the low of two digit million range. The Group rules out an early application as of January 1, 2018 and intends to apply IFRS 16 for the first time as of January 1, 2019. The Group will utilize the modified transitional approach for the application of IFRS 16.