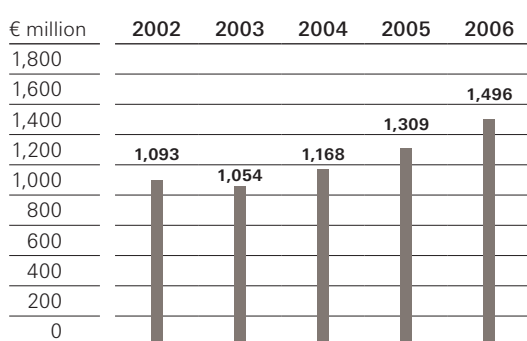


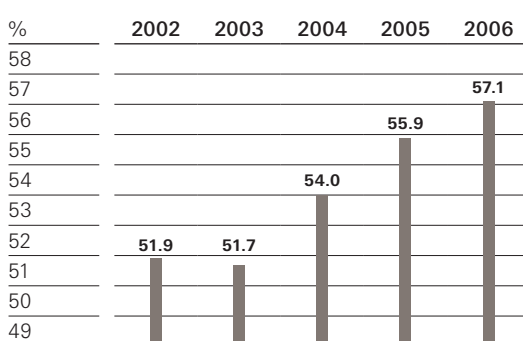
H U G O B O S S

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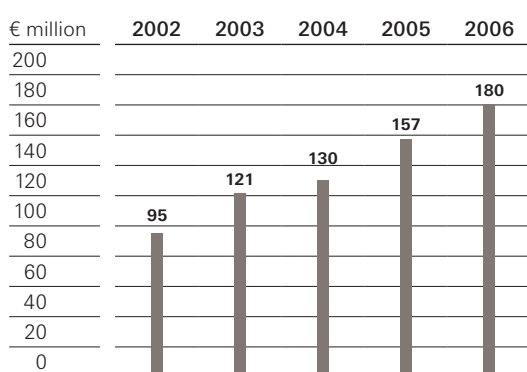
NET SALES



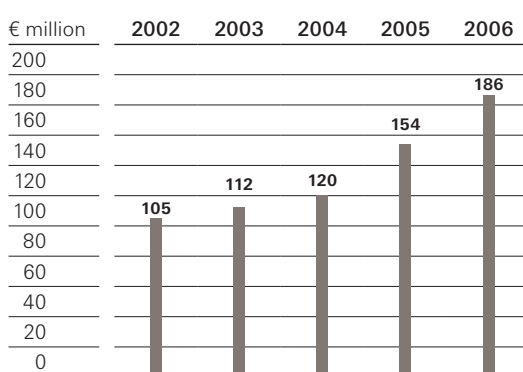
GROSS MARGIN PERCENTAGE



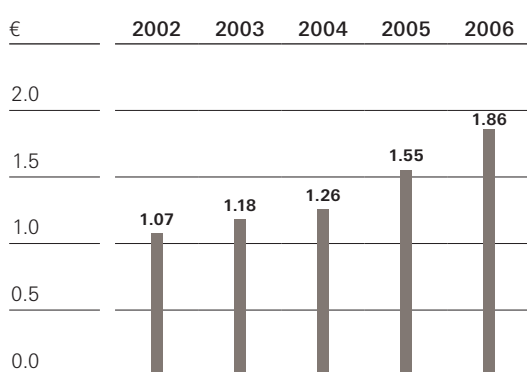
EARNINGS BEFORE TAXES



CASH FLOW

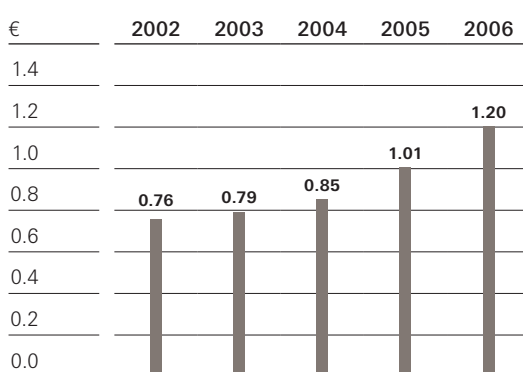


EARNINGS PER SHARE¹



¹ Per preferred share.

DIVIDEND PER SHARE¹



¹ Per preferred share.

FIVE-YEAR OVERVIEW (IFRS)

| in € million | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------------|---------|---------|---------|---------|---------|
| Sales | 1,093.4 | 1,054.1 | 1,168.4 | 1,309.4 | 1,495.5 |
| Gross profit | 567.0 | 545.3 | 631.1 | 731.7 | 854.5 |
| Gross margin | 51.9% | 51.7% | 54.0% | 55.9% | 57.1% |
| EBIT | 98.4 | 119.3 | 135.3 | 162.9 | 184.4 |
| EBIT margin | 9.0% | 11.3% | 11.6% | 12.4% | 12.3% |
| Earnings before taxes | 95.1 | 120.6 | 130.1 | 157.2 | 179.9 |
| Net income | 74.7 | 82.4 | 88.2 | 108.2 | 128.7 |
| Net income margin | 6.8% | 7.8% | 7.5% | 8.3% | 8.6% |

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HUGO BOSS TEN-YEAR SUMMARY

| in € million | 2006 IFRS | 2005 IFRS | 2004 IFRS |
|--|-------------------|--------------|--------------|
| Earnings Position | | | |
| Sales | 1,495.5 | 1,309.4 | 1,168.4 |
| EBIT ¹ | 184.4 | 162.9 | 135.3 |
| Net income | 128.7 | 108.2 | 88.2 |
| adjusted ² | - | - | - |
| Personnel expenses ¹ | 277.8 | 238.2 | 198.3 |
| Employees ³ | 8,441 | 7,584 | 6,942 |
| Financial Position and Dividend | | | |
| Cash flow | 185.5 | 153.9 | 119.9 |
| adjusted ² | - | - | - |
| Free cash flow before dividend | 60.3 | 106.9 | 40.1 |
| Capital expenditure | 98.5 | 76.6 | 57.3 |
| Depreciation/amortization ⁴ | 49.0 | 41.3 | 37.4 |
| Dividends | 82.8 ⁹ | 70.2 | 59.2 |
| Special dividends | - | - | - |
| Asset and Liability Structure | | | |
| Total assets | 953.2 | 854.0 | 810.4 |
| Shareholders' equity ⁵ | 494.4 | 467.8 | 415.6 |
| Current assets | 545.2 | 493.4 | 478.5 |
| Non-current assets ⁶ | 408.0 | 360.6 | 331.9 |
| Key Figures | | | |
| Foreign sales in % ⁷ | 76.8 | 75.7 | 75.0 |
| EBIT margin in % | 12.3 | 12.4 | 11.6 |
| Return on sales after taxes in % | 8.6 | 8.3 | 7.5 |
| adjusted ² | - | - | - |
| Return on equity in % ⁸ | 26.2 | 23.8 | 21.3 |
| adjusted ² | - | - | - |
| Equity-to-assets ratio in % | 51.9 | 54.8 | 51.3 |
| Shares (in EUR) | | | |
| Dividend per share | | | |
| common stock | 1.19 ⁹ | 1.00 | 0.84 |
| preferred stock | 1.20 ⁹ | 1.01 | 0.85 |
| Special dividend per share | | | |
| common stock | - | - | - |
| preferred stock | - | - | - |
| Earnings per share ¹⁰ | | | |
| common stock | 1.84 | 1.54 | 1.24 |
| preferred stock | 1.86 | 1.55 | 1.26 |
| Cash flow per share | 2.63 | 2.19 | 1.70 |
| adjusted ² | - | - | - |
| Common stock ¹¹ | | | |
| highest price | 41.70 | 32.60 | 23.81 |
| lowest price | 28.60 | 21.00 | 16.05 |
| Preferred stock ¹¹ | | | |
| highest price | 40.40 | 31.50 | 24.43 |
| lowest price | 28.84 | 21.10 | 15.85 |

¹ Since 2004: Including non-recurring items.

² Figures adjusted for the tax effect of special dividends.

³ Average for the year acc. to HGB/capacities on the reporting date acc. to IFRS.

⁴ Until 2004: Including non-recurring write-offs.

⁵ Incl. 50% of special untaxed reserves.

⁶ Until 2001: Fixed assets.

| | 2003 | 2002 | 2001 | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|---------|---------|----------------------|----------------------|-------|-------|---------------------|-------|
| | IFRS | IFRS | IFRS | HGB | HGB | HGB | HGB | HGB |
| | 1,054.1 | 1,093.4 | 1,094.7 | 1,094.7 | 923.4 | 752.9 | 683.6 | 581.0 |
| | 119.3 | 98.4 | 153.0 | 151.2 | 161.6 | 103.4 | 92.8 | 88.2 |
| | 82.4 | 74.7 | 117.6 | 106.6 | 109.0 | 56.5 | 49.7 | 42.1 |
| | - | - | 107.7 | - | 99.1 | - | - | - |
| | 170.4 | 158.2 | 149.3 | 149.7 | 123.1 | 100.5 | 91.7 | 80.4 |
| | 5,110 | 4,600 | 4,234 | 4,240 | 3,394 | 2,581 | 2,195 | 2,055 |
| | 111.9 | 105.1 | 150.6 | 141.9 | 125.7 | 73.0 | 63.8 | 57.6 |
| | - | - | 140.7 | - | 115.8 | - | - | - |
| | 60.5 | 61.0 | (46.8) ¹² | (26.3) ¹² | 17.8 | 33.5 | (2.6) ¹² | 18.8 |
| | 46.3 | 68.4 | 95.6 | 73.7 | 36.6 | 46.9 | 29.8 | 43.9 |
| | 32.9 | 32.2 | 29.4 | 30.6 | 22.8 | 19.4 | 13.3 | 12.0 |
| | 55.2 | 53.1 | 53.1 | 53.1 | 49.5 | 28.4 | 24.8 | 20.9 |
| | - | - | - | - | 43.9 | - | - | - |
| | 754.5 | 760.4 | 756.8 | 661.7 | 501.2 | 369.5 | 333.5 | 297.2 |
| | 399.5 | 385.2 | 375.3 | 320.9 | 305.4 | 223.0 | 185.7 | 160.1 |
| | 496.7 | 498.5 | 528.5 | 485.1 | 370.2 | 260.4 | 248.8 | 225.5 |
| | 257.9 | 261.9 | 199.8 | 159.5 | 115.8 | 100.6 | 81.3 | 68.0 |
| | 75.2 | 74.8 | 72.9 | 71.6 | 69.5 | 63.6 | 61.7 | 63.5 |
| | 11.3 | 10.6 | 15.3 | 14.8 | 17.7 | 14.6 | 14.1 | 15.4 |
| | 7.8 | 6.8 | 10.7 | 9.7 | 11.8 | 7.5 | 7.3 | 7.2 |
| | - | - | 9.8 | - | 10.7 | - | - | - |
| | 20.4 | 18.9 | 30.9 | 33.2 | 41.3 | 27.6 | 28.8 | 27.4 |
| | - | - | 28.3 | - | 37.5 | - | - | - |
| | 52.9 | 50.6 | 49.6 | 48.5 | 60.9 | 60.4 | 55.7 | 53.9 |
| | 0.78 | 0.75 | 0.75 | 0.75 | 0.70 | 0.40 | 0.35 | 0.29 |
| | 0.79 | 0.76 | 0.76 | 0.76 | 0.71 | 0.41 | 0.36 | 0.30 |
| | - | - | - | - | 0.62 | - | - | - |
| | - | - | - | - | 0.62 | - | - | - |
| | - | - | - | 1.52 | 1.33 | 0.85 | 0.71 | 0.66 |
| | 1.16 | 1.05 | 1.52 ² | - | - | - | - | - |
| | 1.18 | 1.07 | 1.54 ² | - | - | - | - | - |
| | 1.59 | 1.49 | 2.14 | 2.02 | 1.79 | 1.04 | 0.91 | 0.82 |
| | - | - | 2.00 | - | 1.65 | - | - | - |
| | 18.00 | 26.10 | 33.80 | 33.80 | 29.50 | 12.70 | 18.45 | 11.16 |
| | 8.10 | 7.60 | 13.70 | 13.70 | 10.20 | 9.26 | 10.23 | 8.13 |
| | 17.93 | 29.45 | 39.20 | 39.20 | 38.50 | 14.30 | 19.99 | 11.95 |
| | 8.48 | 8.20 | 15.10 | 15.10 | 10.56 | 9.53 | 10.97 | 8.37 |

⁷ Export share incl. foreign royalties income.

⁸ Net income in relation to the average shareholders' equity.

⁹ 2006: Recommendation for dividend payment.

¹⁰ 2006–2001: based on IFRS; prior to 2001: based on DVFA/SG ("Deutsche Vereinigung für Finanzanalyse und Anlageberatung/Schmalenbachgesellschaft").

¹¹ Frankfurt/Main floor.

¹² Negative amounts are shown in brackets.

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TO OUR SHAREHOLDERS

LETTER TO SHAREHOLDERS

FROM BRUNO SÄLZER

LADIES AND GENTLEMEN,

The global economy expanded somewhat faster in 2006 than in the year before with growth totaling approximately 5%. In the European Union, where we generate more than 60% of our sales, the overall economy also increased in comparison with 2005, rising by 2.7%.

The world fashion market also experienced stronger growth in 2006 than in previous years with a rise of 4%. Markets in the USA and Asia again outpaced European markets. The German fashion market saw a slight improvement of 1%, reversing a declining trend that had held since the mid-nineties.

Even compared with the rising trend on global and local markets, growth of HUGO BOSS AG was extremely dynamic. Group sales increased by 14% to EUR 1.5 billion, and net income rose by 19% to EUR 129 million. Foreign sales increased 16% to make up 77% of total sales. Germany remains our largest single market, contributing 23% to our business. Sales in Germany grew 9%.

The double-digit growth experienced by the Group in the past three years is also reflected in the rise in our employee numbers. At the end of fiscal 2006 HUGO BOSS had 8,441 full-time equivalents, an increase of approximately 1,500 since 2004. Nearly 360 new jobs were created in this period in Germany alone.

Good performance continued in fiscal 2006 in areas of key significance for the Group's development: directly operated stores (DOS), women's fashion, and shoes and leather accessories.

In September 2006, we opened our 1,000th HUGO BOSS store in the world in Shanghai, our very first retail location in the People's Republic of China. Another crucial contribution to the positive sales trend was made by the accelerated expansion of sales via the Group's directly operated stores, with 65 new locations in 2006 resulting in an increase of 39%. The share of DOS sales rose to 13% of total sales in 2006, increasing to EUR 192 million.

Performance of BOSS Womenswear was very encouraging again in 2006. The two womenswear lines under the core BOSS brand, BOSS Black and BOSS Orange, a leisure-oriented line launched on the market in fiscal 2006, increased a total of 69% to EUR 162 million (2005: EUR 96 million). Based on this significant growth in sales, the share of the womenswear segment in total Group sales rose to 11% (2005: 7%).

On top of these achievements, the Group expanded its collection of shoes and leather accessories. This product segment is of particular significance for the women's clothing business. Sales growth of 28% to EUR 151 million (2005: EUR 118 million) testifies to the increasing significance of these product groups.

Sales in the menswear segment, including the HUGO brand, increased by 10% to EUR 1,333 million in 2006 (2005: EUR 1,214 million), with sales of BOSS Menswear rising 11% to a total of EUR 1,186 million (2005: EUR 1,072 million). The BOSS Selection line, which covers the high-end segment of the market, continued to grow dynamically. In fiscal 2006, BOSS Selection grew by 62%, generating sales of EUR 33 million in its third year after market launch (2005: EUR 21 million).

The HUGO brand improved on its leading position in key fashion markets with a sales gain of 9%, from EUR 125 million to EUR 136 million in fiscal 2006.

We are convinced that 2007 will be another successful year for HUGO BOSS. We plan to continue increasing our market shares in all key markets and for all product segments, setting new records in sales and earnings.

On behalf of the entire Managing Board, I wish to thank all our employees for their continued efforts and extraordinary commitment, as well as our shareholders, customers and business partners for their confidence and support.

Regards


Bruno Sälzer
Chair of the Managing Board

SUPERVISORY AND MANAGING BOARDS

2006

SUPERVISORY BOARD

| | |
|---|---|
| Dr. Giuseppe Vita , Milan, Italy | Supervisory Board, Chair |
| Antonio Simina , Metzingen, Germany | Tailor/Chairman of the Works Council, HUGO BOSS AG, Metzingen, Germany, Deputy Chair, Employee Representative |
| Gert Bauer , Reutlingen, Germany | First Authorized Representative, German Metalworkers' Union (IG-Metall) of the administration cost center, Reutlingen/Tuebingen, Germany, Employee Representative |
| Philippe Bouckaert , London, Great Britain | Supervisory Board |
| Helmut Brust , Bad Urach, Germany | Director Retail Germany, HUGO BOSS AG, Metzingen, Germany, Employee Representative |
| Andrea Donà dalle Rose , Rome, Italy | Deputy Chairman of the Board of Directors, Valentino Fashion Group S.p.A., Milan, Italy |

| | |
|--|--|
| Antonio Favrin , Portogruaro, Venice, Italy | Chairman of the Board of Directors, Valentino Fashion Group S.p.A., Milan, Italy |
| Peter Haupt , Metzingen, Germany | Employee, HUGO BOSS AG, Metzingen, Germany, Employee Representative |
| Roland Klett , Metzingen, Germany | Head of Flat Packed Goods, HUGO BOSS AG, Metzingen, Germany, Employee Representative |
| Reinhold L. Mestwerdt , Kronberg, Germany | Managing Director, Westdeutsche Spielbanken GmbH & Co. KG, Duisburg, Germany |
| Rainer Otto , Langen, Germany | Secretary, German Metalworkers' Union (IG-Metall) – Managing Board, Frankfurt/Main, Germany, Employee Representative |
| Dario Federico Segre , Milan, Italy | Managing Director, Finanziaria Canova S.p.A., Milan, Italy |

MANAGING BOARD**Dr. Bruno Sälzer**, Reutlingen

Chair of the Managing Board,
Responsible for Sales and Marketing,
Member of the Managing Board
since November 1, 1995

Dr. Werner Lackas, Eningen unter Achalm

Responsible for Production and Logistics,
Member of the Managing Board
since October 1, 1997

André Maeder, Stuttgart

Responsible for Retail,
Licenses and the HUGO brand,
Member of the Managing Board
since January 1, 2004

Joachim Reinhardt, Metzingen

Responsible for Finance, Human Resources,
Administration and IT,
Director for Labor Relations
since April 1, 2006,
Member of the Managing Board
since April 1, 2006



Dr. Werner Lackas, Dr. Bruno Sälzer, Joachim Reinhardt, André Maeder (left to right)

REPORT OF THE SUPERVISORY BOARD

BY DR. GIUSEPPE VITA

LADIES AND GENTLEMEN,

Throughout fiscal 2006, the Supervisory Board fulfilled its duties as established under the law, the Company's Articles of Association, and its Bylaws. The Supervisory Board provided counsel to the Managing Board and monitored its management of the Company. In order to achieve this, the Managing Board gave regular, prompt, and comprehensive reports, both verbally and in writing, especially on all topics of relevance to corporate management, the business development, strategic planning, and risk exposure, including risk management. Furthermore, the Chair of the Supervisory Board was in regular contact with the Managing Board beyond the scope of the meetings.

All matters requiring consent were submitted to the Supervisory Board, which granted its approval after thorough review.

INTENSIVE CONSULTATIONS ON THE PART OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The Supervisory Board held a total of four scheduled meetings in the 2006 reporting year, in March, May, September, and December, for the purpose of fulfilling its duties. In addition a special session with a thorough discussion of strategic issues was held in November. Moreover, an extraordinary Supervisory Board meeting was held in June dealing with the sale of the textile activities of the BALDESSARINI brand as well as with personnel topics relating to the Managing Board.

Between scheduled meetings, the Supervisory Board was also kept informed in writing of projects and strategic decisions of high priority for the Company. All members regularly participated in the Supervisory Board meetings, with the exception of the sessions in June and September.

Items of regular discussion by the Supervisory Board included the sales and earnings trends, investment planning, continuing internationalization of the business, and the Company's current risk exposure. Additional focus was placed in 2006 on topics such as continued expansion of the Company's own retail business and the "Columbus" IT project.

The Supervisory Board is assisted by its committees in fulfilling its task of monitoring and advising the Managing Board. In line with the recommendations of the German Corporate Governance Code, the Supervisory Board has formed a Working Committee to prepare for the Supervisory Board meetings, an Audit Committee, a Personnel Committee, and a Mediation Committee in accordance with Section 27 Paragraph 3 of the German Co-Determination Act (MitbestG), all of which are staffed by members of the Supervisory Board.

The Working Committee met twice during the year under review. The meetings focused on current corporate developments. Furthermore, the Audit Committee met four times, and the Personnel Committee three times.

No meetings of the Mediation Committee were deemed necessary in fiscal 2006.

The Chairs of the respective committees reported in detail to the Supervisory Board on the results of the committee meetings.

CORPORATE GOVERNANCE

In the Corporate Governance Report, the Managing and Supervisory Boards of the Company report on adherence to German corporate governance standards pursuant to Section 3.10 of the German Corporate Governance Code. The declaration of compliance for 2006 concerning implementation of the Corporate Governance Code at HUGO BOSS AG was passed in December 2006 and immediately made available to the public on the Company's website.

As in past years, a review of the efficiency of the Supervisory Board's activities – as recommended by the Corporate Governance Code – was conducted by means of a standardized, comprehensive questionnaire. The results were discussed in detail and analyzed at the Supervisory Board Meeting on December 6, 2006. On the whole, the Supervisory Board arrived at a positive conclusion.

MANDATORY DISCLOSURES IN ACCORDANCE WITH SECTION 171, PARAGRAPH 2, SENTENCE 2 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

- As set forth in Section 6 Paragraph 1 of the Company's Articles of Association, the Managing Board of HUGO BOSS AG comprises at least two members. The members of the Managing Board are appointed by the Supervisory Board pursuant to Sections 84 and 85 of the German Stock Corporation Act for a maximum of five years. The Supervisory Board decides in accordance with the provisions of the German Stock Corporation Act and the German Co-Determination Act on the number of Managing Board members, the appointment of such members and revocation of the appointments and contracts of employment. According to Section 6 Paragraph 3 of the Articles of Association, Managing Board members should as a rule not be older than 60 years of age upon appointment.
- The share capital of HUGO BOSS AG amounts to EUR 70,400,000 and is divided into 35,860,000 common shares (50.9%) and 34,540,000 preferred shares (49.1%) equivalent to a share in the issued share capital of EUR 1.00 per common or preferred share. The shares of HUGO BOSS AG are bearer shares. There are no legal or statutory restrictions on voting rights or transfer of shares; the Managing Board is not aware of any agreements between shareholders to such effect.

- Unlike the common shares, the preferred shares are non-voting shares. However, the dividends paid to bearers of non-voting preferred shares from net retained earnings are EUR 0.01 higher per preferred share than the dividends paid to bearers of common shares. Assuming sufficient net profit, the dividend for preferred shares amounts to no less than EUR 0.01 per share.
- HUGO BOSS AG issues no shares vested with special rights granting powers of control. No special provisions exist with regard to the exercise of shareholder rights by shareholders that are employees of HUGO BOSS AG, in particular, no voting controls exist.
- Pursuant to Section 119 Paragraph 1 Sentence 5 of the German Stock Corporation Act, any changes to the Articles of Association must be approved by the Annual Shareholders' Meeting. Unless otherwise mandated by the German Stock Corporation Act, resolutions are approved pursuant to Section 17 Sentences 2 and 3 of the Articles of Association by simple majority of the votes cast and – insofar as a majority of the capital is required to be represented for approving a resolution – by simple majority of the share capital represented upon voting on the resolution. According to Section 20 of the Articles of Association, the Supervisory Board is authorized to resolve on modifications to the Articles of Association that affect the wording only.
- On May 18, 2004, the Annual Shareholders' Meeting of HUGO BOSS AG authorized the Managing Board, subject to the consent of the Supervisory Board, to increase the Company's nominal authorized capital by May 18, 2009 by a total of no more than EUR 35,200,000 by issuing one or several times new bearer shares and/or bearer preferential shares without voting rights, which correspond to the bearer preferential shares without voting rights already issued, in return for cash and/or deposits in kind.
- On May 4, 2006, the Annual Shareholders' Meeting authorized the Managing Board to purchase bearer ordinary and/or non-voting bearer preferential shares of HUGO BOSS AG until November 3, 2007 up to an overall maximum of 10% of its current capital. The authorization to purchase shares may be exercised by HUGO BOSS AG for the entire amount at once or in part amounts on one or several occasions. The shares may be purchased via the stock market by means of a public purchase offer to holders of the respective category of shares.

Any Company shares repurchased in accordance with this authorization may be resold via the stock market or by means of an offer to all shareholders. They may also be used as counter-performance for a possible acquisition of enterprises or shareholdings in enterprises, for a sale at a price that is not substantially lower than the stock market price and for the listing of the share on foreign stock markets.

- In 2006, no major changes occurred to the Company's shareholder structure in comparison with fiscal 2005. As in the previous year, the Valentino Fashion Group S. p. A. holds 50.9% (35,854,128 shares) of the total share capital of HUGO BOSS AG. The Italian Valentino Group holds 78.8% of the common stock (28,242,128 shares) and 22.0% of the preferred stock (7,612,000 shares). This

translates into a free float of 21.2% for common shares and 78.0% for preferred shares. Apart from the Valentino Group, no other shareholders have reported holdings equivalent to more than 3% of the share capital of HUGO BOSS AG. Other notable blocks of shares are held by major institutional investors in North America, Germany, Great Britain, and Switzerland.

- No disclosures are required in accordance with Section 289 Paragraph 4 No. 8 and No. 9 and Section 315 Paragraph 4 No. 8 and No. 9 of the German Commercial Code (HGB).

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS, AUDITED

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, reviewed the financial statements of HUGO BOSS AG and the management report for fiscal 2006 along with the consolidated financial statements and the Group management report for fiscal 2006 prepared by the Managing Board. The external auditor was commissioned by the Supervisory Board in accordance with the resolution of the Annual Shareholders' Meeting of May 4, 2006. The external auditor issued an unqualified audit opinion for the financial statements and the management report along with the consolidated financial statements and the Group management report. The auditor confirmed that no inaccuracies or violations of applicable law were noted in the financial statements, the consolidated financial statements, the management report, or the Group management report.

The Company maintains an effective risk early warning system in accordance with the law.

All members of the Supervisory Board received the auditors' reports without delay for detailed review.

The Audit Committee and the Supervisory Board have reviewed and discussed in detail the annual financial statements, the consolidated financial statements, the management report, and the Group management report as well as the proposal for the appropriation of net profit. The respective committees were accorded sufficient time to study the relevant information. The financial statements of HUGO BOSS AG as prepared by the Managing Board were accepted at the Supervisory Board meeting of March 1, 2007, and the consolidated financial statements were deemed approved. The Supervisory Board concurred with the proposal for the appropriation of net profit. The auditors who signed the audit opinion were present at the meetings of the Audit Committee and the Supervisory Board and reported on the progress and the main findings of the audit. They were available to the respective committees to answer questions and provide additional information.

The Managing Board has in addition prepared a report on relations with affiliated companies and submitted this report, along with the audit report prepared by the external auditors, to the Supervisory Board, the Working Committee, and the Audit Committee. The auditors have issued the following audit opinion:

“Based on our audit performed in accordance with our professional duties, we confirm that

1. the information in the report is correct, and
2. with respect to the legal transactions cited therein, the company’s contribution was not inappropriately high.”

The Supervisory Board and its committees raised no objections during the course of their own review of the report on relations with affiliated companies and concur with the findings of the auditor.

CHANGE IN MANAGING BOARD MEMBERSHIP

Mr. Joachim Reinhardt was appointed member of the Managing Board and Director for Labor Relations by the Supervisory Board effective April 1, 2006. Mr. Reinhardt is responsible for the areas of finance, human resources, administration, and IT.

The Supervisory Board would like to express its appreciation to the Managing Board and the entire staff for the successes achieved in 2006.

Metzingen, March 1, 2007

The Supervisory Board



Dr. Giuseppe Vita
Chair of the Supervisory Board

CORPORATE GOVERNANCE

AT HUGO BOSS AG

APPLICATION OF THE GERMAN CORPORATE GOVERNANCE CODE AT HUGO BOSS AG

The Managing and Supervisory Boards of HUGO BOSS AG have reported as follows on application of the Corporate Governance Code at HUGO BOSS AG pursuant to Section 3.10 of the German Corporate Governance Code (Corporate Governance Report):

Good corporate governance is one of the fundamental principles of the HUGO BOSS Group and a crucial component for long-term success. In addition to responsible management of the Company for the benefit of employees, shareholders, and customers, good corporate governance also means appreciating and strengthening the confidence placed in the Company. For this reason, business activities focus on sustainably increasing enterprise value. As has proven effective in the past, the Managing Board and the Supervisory Board work closely together in the interest of the entire Company, using good corporate governance to ensure efficient corporate management and control aimed at value creation. In order to achieve this, the Managing Board reports regularly, promptly, and comprehensively to the Supervisory Board and its committees, both verbally and in writing, especially on all topics of relevance to corporate management, the business performance, strategic planning, and risk exposure, including risk management. In fiscal 2006, the meetings emphasized topics such as continued expansion of the Company's own retail business, the "Columbus" project, and the sale of the textile activities of the BALDESSARINI brand. In addition, accounting issues were discussed in depth at sessions of the Audit Committee. Personnel issues affecting the HUGO BOSS AG Managing Board were discussed by the Personnel Committee.

In accordance with the recommendations of the Corporate Governance Code, care was taken in the selection of Supervisory Board members to ensure that the supervisory committees were composed only of members who possess the requisite knowledge, skills, and professional experience and who are independent within the meaning of the Corporate Governance Code. Furthermore, the Chair of the Audit Committee is endowed with special skills and experience in the application of accounting principles and internal controls. None of the Supervisory Board members has previously occupied a management position within the Company.

No conflicts of interest involving Managing or Supervisory Board members arose during the year under review. Any such conflicts of interest are required to be reported to the Supervisory Board without delay.

Responsible handling of entrepreneurial risks is also part of good corporate governance in the HUGO BOSS Group. A systematic and comprehensive risk identification process allows risks to be identified early on and the Group to manage its risk exposure accordingly. Due to constantly changing conditions, the risk early warning system of the HUGO BOSS Group is optimized on an

ongoing basis and adapted to reflect current developments. Details on this topic are specified in the "Risk Report" section.

The legal requirements relating to capital markets were also implemented in fiscal 2006. An ad hoc committee consisting of representatives of different central departments was set up to review the ad hoc relevance of insider information and to ensure that such information is dealt with in conformity with statutory requirements. Since fiscal 2005, all persons having access to insider information in connection with their employment activities have been instructed on their duties under the law relating to insider information and entered in a register.

HUGO BOSS also ensures that all capital market participants are provided with the same information without delay in order to adhere to the principle of transparency, another important part of good corporate governance. Private and institutional investors are able to stay abreast of current developments in the Group by referring to HUGO BOSS' website. All press releases and ad hoc announcements are published on the website along with information on share price and dividend performance. Moreover, updated investor relations presentations are available for download from the website. Additional information on all investor relations activities and the financial calendar are also available on the website under "Investor Relations."

In order to make participation in the Annual Shareholders' Meeting of HUGO BOSS easier and more attractive, HUGO BOSS converted its registration and legitimization procedures to the "record date" procedure in 2006. To be entitled to participate in the Annual Shareholders' Meeting and exercise their voting rights, all shareholders must provide evidence upon registration of having held shares in the Company since the beginning of the 21st day prior to the shareholders' meeting. Such evidence must be received by the Company no later than seven days prior to the Annual Shareholders' Meeting. Shareholders may also inform themselves by means of the Annual Report, which is published in advance of the Annual Shareholders' Meeting, and the invitations sent. All other documents relating to the Annual Shareholders' Meeting are made available on the Company's website in due time. This promotes dialog between the Company and its shareholders, thus increasing Company transparency.

Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the Managing and Supervisory Boards as well as employees with management responsibilities as defined in the German Securities Trading Act are required to disclose the purchase or sale of HUGO BOSS AG securities. During the period under review, January 1 to December 31, 2006, five securities transactions subject to reporting requirements were notified to the Company and published on the website.

Members of the Supervisory Board hold a total of 0.2% of the shares issued by HUGO BOSS AG. Total holdings of members of the Managing Board amount to less than 0.01% of the shares issued by the Company.

Managing and Supervisory Board members who are members of executive or advisory bodies at other companies are shown on pages 156 to 159.

Since fiscal 2001, HUGO BOSS AG has been offering a stock appreciation rights program for Managing Board members and second-tier executives. As part of this program, members of the HUGO BOSS AG Managing Board as well as certain other executives of HUGO BOSS AG and its subsidiaries are accorded a certain number of participation rights. These rights enable them to participate in any increase in the value of the Company's shares. The participation rights solely confer a claim to payment in cash, not a claim to HUGO BOSS AG shares.

Tranche 3 of the stock appreciation rights program has a term of four years, and tranches 4 to 7 have six-year terms. After the initial holding period of two years, the exercise period of two or four years commences. Participation rights may be exercised if growth in market capitalization of HUGO BOSS AG exceeds MDAX growth by 5 percentage points (exercise hurdle) upon expiration of the holding period or during the exercise period.

The payoff corresponds to the difference between the strike price and the market capitalization value as reflected in the average price of the relevant HUGO BOSS AG shares, divided by the total number of shares of HUGO BOSS AG during the five trading days preceding the date of exercise. The strike price corresponds to the market capitalization value based on the average price of the relevant shares, divided by the total number of HUGO BOSS AG shares during the 20 trading days preceding the date of issue.

The Annual Shareholders' Meeting created the framework necessary for applying the recommendations of the Corporate Governance Code to a great extent, by means of the modifications to the Articles of Association resolved on May 27, 2003.

The following recommendations of the Code are the only ones that have not been put into practice:

- "In principle, each share carries one vote." (Section 2.1.2 Sentence 1 of the Code)

As of December 31, 2006, the share capital of HUGO BOSS AG was divided into 35,860,000 voting common shares and 34,540,000 non-voting preferred shares. This division exists for historical reasons. Only non-voting preferred shares were initially issued on December 19, 1985. In order to better respond to the differing preferences of market participants, common shares were floated in 1987; nominal capital remained unchanged.

- "If the company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed." (Section 3.8 Paragraph 2 of the Code)

HUGO BOSS AG covers the D&O risk by taking out appropriate property and liability insurance for the members of its executive bodies, which also encompasses coverage for the Supervisory Board members.

The Company's Managing and Supervisory Boards perform their duties responsibly and in the interest of the Company. HUGO BOSS does not believe that a deductible is an appropriate means to further improve the sense of responsibility of the individuals concerned. Moreover, no significant savings in premiums would be achieved by introducing a deductible.

- "Changing such performance targets or the comparison parameters retroactively shall be excluded. For extraordinary, unforeseen developments a possibility of limitation (Cap) shall be agreed for by the Supervisory Board." (Section 4.2.3, Sentences 7 and 8 of the Code)

We do not intend to apply a cap to compensation of the Managing Board within the long-term incentive system (stock appreciation rights program) in the event of extraordinary, unforeseen developments. HUGO BOSS AG's long-term incentive system provides a number of participation rights for members of the Managing Board and specified employees, enabling them to benefit from price increases in HUGO BOSS shares. The program was established prior to the effective date of the relevant recommendation, which could therefore not be incorporated. We do not plan a post facto change of objectives or comparative parameters.

- "The total compensation of each member of the Management Board is to be disclosed by name, divided into non-performance-related, performance-related and long-term incentive components, unless decided otherwise by the General Meeting by three-quarters majority." (Section 4.2.4 of the Code)

Pursuant to the German Disclosure of Management Board Remuneration Act (VorstOG) of August 3, 2005, the annual shareholders' meeting is able to decide the extent to which compensation paid to management board members shall be disclosed by name. The Annual Shareholders' Meeting made use of this option and passed the following resolution on May 4, 2006:

"The information required by Section 285 sentence 1 no. 9 letter a sentence 5 to 9 and Section 314 (1) no. 6 letter a sentence 5 to 9 of the German Commercial Code (HGB) in the version in the VorstOG and by any other statutory provisions shall be omitted for five years. This resolution applies to the financial year beginning on 1 January 2006 and to the following four financial years, i.e. until 31 December 2010."

Therefore, the total compensation paid to individual members of the Managing Board has not been disclosed.

- “Disclosure shall be made in a compensation report which as part of the Corporate Governance Report describes the compensation system for Management Board members in a generally understandable way.

The presentation of the concrete form of a stock option plan or comparable schemes for components with a long-term incentive effect and risk character shall include the value thereof. In the case of pension plans, the allocation to accrued pension liabilities or pension funds shall be stated each year.

The substantive content of severance awards for Management Board members shall be disclosed if in legal terms the awards differ not insignificantly from the awards granted to employees. The compensation report shall also include information on the nature of the fringe benefits provided by the company.” (Section 4.2.5 of the Code)

Based on the aforementioned resolution, no details are provided on the total compensation paid to individual Managing Board members.

- “The compensation of the members of the Supervisory Board shall be reported individually in the Corporate Governance Report, subdivided according to components. Also payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided individually, in particular, advisory or agency services shall be listed separately in the Corporate Governance Report.” (Section 5.4.7, Paragraph 3 of the Code)

Total payments made to members of the Supervisory Board pursuant to IAS 24 are disclosed in the Notes to the Consolidated Financial Statements. A detailed disclosure of the individual amounts in the Corporate Governance Report would not provide any additional information of relevance to capital markets.

In 2006, the Annual Shareholders’ Meeting resolved on an extensive, detailed amendment to the provision regarding Supervisory Board compensation in the Articles of Association of HUGO BOSS AG.

- “The ownership of shares in the company or related financial instruments by Management Board and Supervisory Board members shall be reported if these directly or indirectly exceed 1% of the shares issued by the company.” (Section 6.6, Paragraph 2, Sentence 1 of the Code)

The German Securities Trading Act prescribes certain announcements and publications in the event that voting rights in the Company exceed or fall below certain levels and in the event that certain financial instruments are held that could lead to a change in the distribution of voting

rights. The same applies to the acquisition or sale of shares or related acquisition or sale rights on the part of members of the Managing or Supervisory Boards of the Company. Legislators have just recently reformed these standards to include additional thresholds, for example. In doing so, the interests of capital markets were weighed against those relating to data protection rights. Section 6.6, Paragraph 2, Sentence 1 of the Code conflicts with this legislation. It is the opinion of the Managing and the Supervisory Boards that the legislative requirements pertaining to disclosure, together with the information under Section 6.6, Paragraph 2, Sentence 2 of the Code, are sufficient.

DECLARATION OF THE MANAGING BOARD AND SUPERVISORY BOARD OF HUGO BOSS AG PURSUANT TO SECTION 161 AKTG (GERMAN STOCK CORPORATION ACT)

HUGO BOSS AG, Metzingen
Securities ID Nos. 524 550, 524 553

The Managing Board and Supervisory Board of HUGO BOSS AG herewith declare pursuant to Section 161 AktG (German Stock Corporation Act) that the recommendations of the Government Commission "German Corporate Governance Code" as amended on June 12, 2006 – officially published in the electronic Federal Gazette on July 24, 2006 – since the Compliance Declaration of December 2005 have been and are generally complied with.

The recommendations based on Section 2.1.2 Sentence 1, 3.8 Paragraph 2, 4.2.3 Sentences 7 and 8, 4.2.4, 4.2.5, 5.4.7 Paragraph 3, and Section 6.6 Paragraph 2 Sentence 1 have not been and are not complied with.

Metzingen, December 2006

HUGO BOSS – KEY SHARE DATA

| | 2006 | 2005 |
|--|------------|------------|
| Number of shares | | |
| common stock | 70,400,000 | 70,400,000 |
| preferred stock | 35,860,000 | 35,860,000 |
| | 34,540,000 | 34,540,000 |
| Year-end (12/31) share price in EUR¹ | | |
| common share | 41.00 | 30.50 |
| preferred share | 38.92 | 29.70 |
| Share price in EUR¹ | | |
| common share | | |
| high | 41.70 | 32.85 |
| low | 28.66 | 21.00 |
| preferred share | | |
| high | 40.50 | 31.54 |
| low | 28.80 | 21.14 |
| Market capitalization in EUR million (12/31) | 2,815 | 2,120 |
| Earnings per share in EUR | | |
| common share | 1.84 | 1.54 |
| preferred share | 1.86 | 1.55 |
| Price-earnings ratio² | | |
| high | 22 | 20 |
| low | 15 | 14 |
| Amount distributed in EUR million³ | 82.8 | 70.2 |
| Distribution rate in %⁴ | 64 | 65 |
| Dividend per share in EUR³ | | |
| common share | 1.19 | 1.00 |
| preferred share | 1.20 | 1.01 |
| Dividend yield in %⁵ | | |
| high | 3.0 | 3.2 |
| low | 4.2 | 4.8 |

¹ Xetra.

² Based on maximum/minimum prices of preferred shares.

³ 2006: Recommendation for dividend payment.

⁴ Based on consolidated net profit.

⁵ Preferred shares.

TYPE OF SHARE: NO-PAR-VALUE SHARES

| | Security Code Number (WKN) | International Securities Identification Number (ISIN) |
|-----------------|----------------------------|---|
| Common share | 524550 | DE 000 524 55 00 |
| Preferred share | 524553 | DE 000 524 55 34 |

HUGO BOSS shares are traded on the following stock exchanges:

Xetra, Frankfurt/Main, Stuttgart, Duesseldorf, Hamburg, Munich, Hanover (preferred shares only), Berlin-Bremen (preferred shares only)

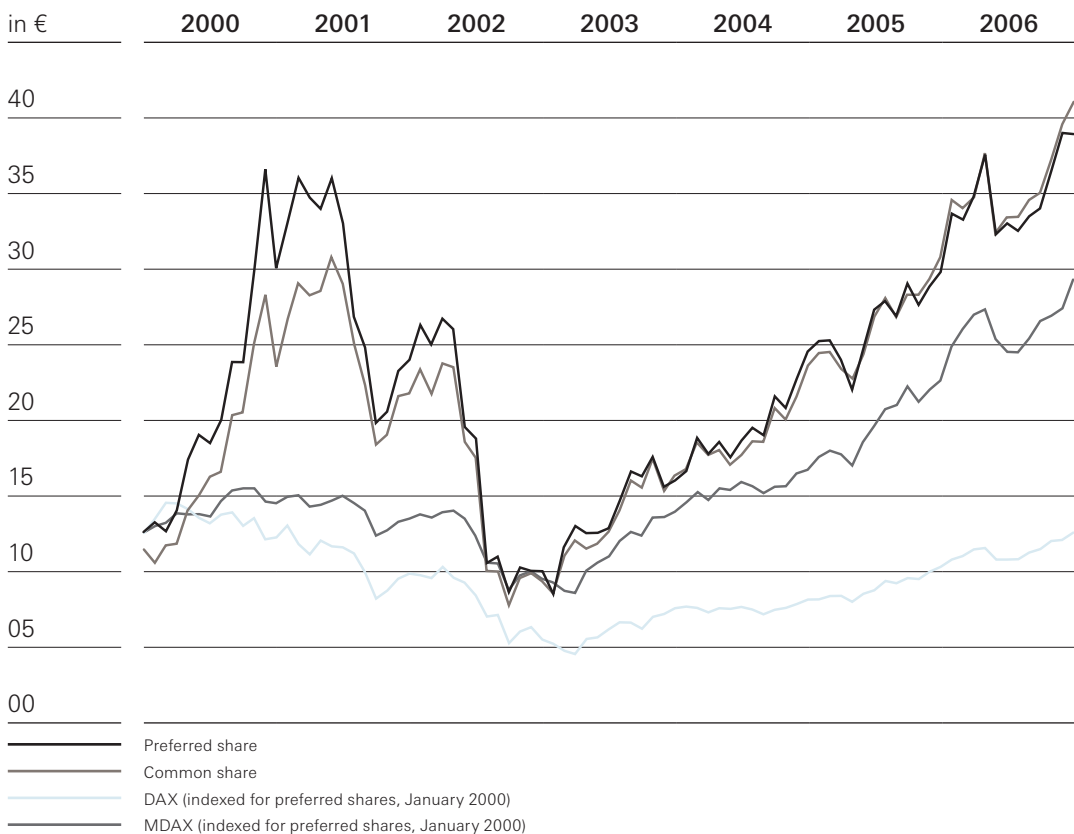
INVESTOR INFORMATION

STOCK MARKET IN 2006

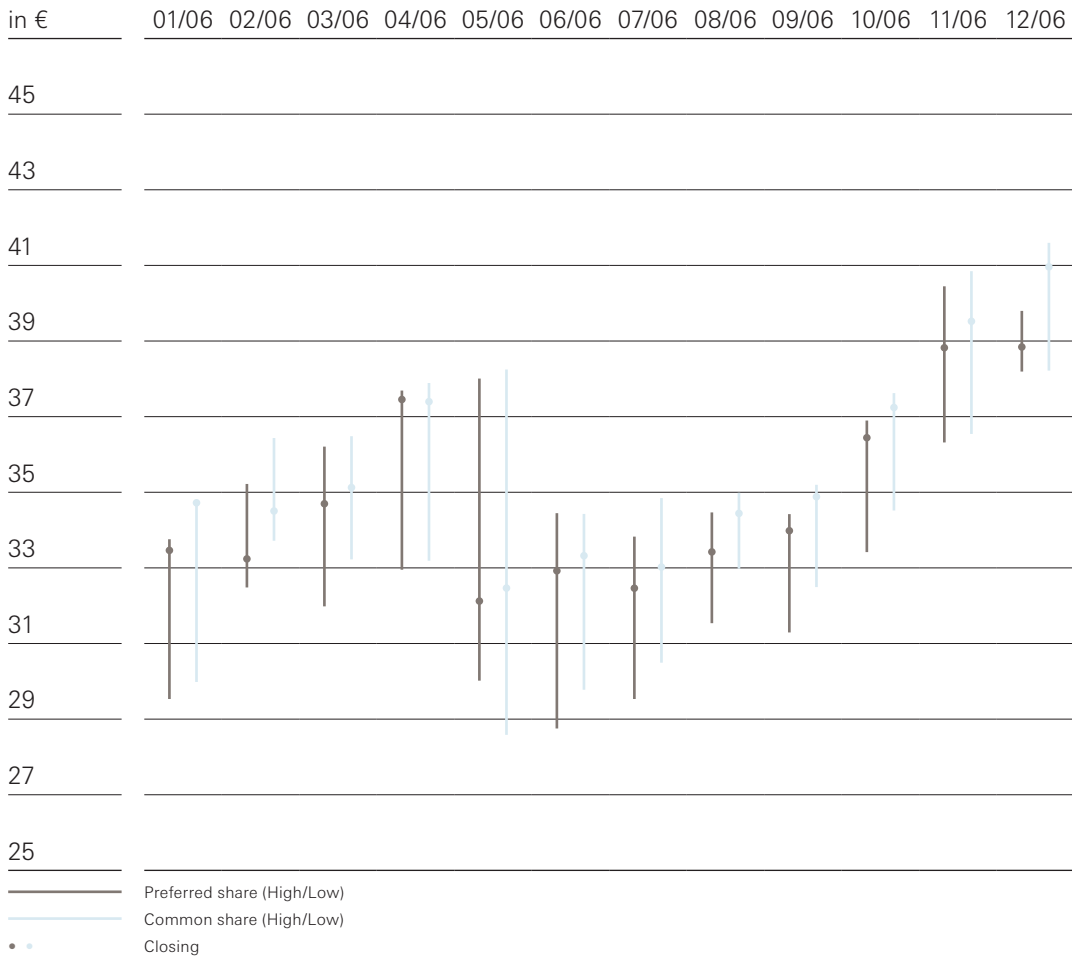
International equities markets made strong gains in 2006. All major international stock indices showed double-digit percentage growth, with the exception of the Nikkei Index in Japan. The DAX 30, which comprises the 30 leading German blue chips, exceeded 6,000 points in 2006 for the first time since 2001. The DAX closed the year at 6,597 points, an increase of 22% and just under the annual high. The MDAX, which lists the preferred shares of HUGO BOSS, also closed the year near the annual high, reaching 9,405 points (+29%). The key international indices such as the European EURO STOXX 50 and the U. S. DOW JONES also registered growth.

Both categories of HUGO BOSS stock markedly exceeded the high levels of international equities markets, with preferred shares rising by 31% to EUR 38.92 and common shares by 34% to close at EUR 41.00. Both share classes reached new historical highs in the course of fiscal 2006, exceeding EUR 40.00 for the first time (preferred shares: EUR 40.50; common shares: EUR 41.70). As shown in the diagram below, HUGO BOSS AG stock significantly exceeded the DAX 30 and the MDAX both in 2006 as well as in a multi-year comparison.

SHARE PRICE PERFORMANCE



PREFERRED SHARES/COMMON SHARES



Due to the strong performance of preferred and common shares, the market capitalization of HUGO BOSS AG had risen by EUR 695 million (+33%) to EUR 2,815 million (2005: EUR 2,120 million) by the end of fiscal 2006. In the Deutsche Börse AG share ranking, which considers only the free float of the preferred shares listed in the MDAX, HUGO BOSS was in 35th place with a market capitalization of EUR 1,054 million. HUGO BOSS AG was in 42nd place in terms of trading volume, with an average monthly volume of 2.7 million preferred shares (2005: 2.0 million) and approximately 437,000 common shares (2005: 406,000). Common shares traded at significantly less volume due to the lower free float.

DIVIDENDS

Our shareholders participate in the sustained, profitable growth of the Company via dividend payments. Against the backdrop of a rise of 19% in net income, the Managing and Supervisory Boards have recommended to the Annual Shareholders' Meeting to pay a dividend of EUR 1.19 per common share and EUR 1.20 per preferred share for fiscal year 2006. This corresponds to a dividend yield of 2.9% for common shares and 3.1% for preferred shares based on closing prices as of December 31, 2006.

INVESTOR RELATIONS ACTIVITIES IN 2006

At HUGO BOSS, high priority is placed on communication with institutional and private investors. Investor relations activities were accordingly intensified once again in fiscal 2006.

HUGO BOSS presented itself to international investors at numerous meetings at the Metzingen headquarters and during 40 days of road shows. The management also participated in six investment conferences in Germany and abroad to answer questions in a broader investment forum. Moreover, private investors had the opportunity to conduct an intensive dialog with corporate management at five investor events held in cooperation with shareholder associations.

In addition, all insider information was immediately published in the form of ad hoc announcements and made available to the public on the HUGO BOSS AG website as stipulated by law.

The success of the investor relations activities at HUGO BOSS was again demonstrated by national and international rankings from external institutes. For instance, the Company took ninth place in the MDAX category in a ranking of annual reports published by "Manager Magazin." HUGO BOSS was ranked eighth within the company rating of the MDAX category in a survey by Thomson Extel in which analysts and investors were asked to rate the quality of investor relations work of European companies. Finally, HUGO BOSS was awarded sixth place in the MDAX category in the 2006 Investor Relations prize awarded by the magazine „Capital."

As in previous years, the Annual Shareholders' Meeting held on May 4, 2006 was the most important investor relations event of the year, particularly for private investors, with 71% of share capital represented (2005: 70%). All agenda items submitted for consideration by the Annual Shareholders' Meeting were approved by the required majority.

INTERNET INFORMATION

The Internet is a key tool for investor relations communication, especially with private shareholders. Current information on HUGO BOSS such as financial reports, press releases, the financial calendar, and the latest company profile can be retrieved from our redesigned website along with recordings of analyst meetings and teleconferences.

As in past years, selected pages from our annual report are also available in interactive form.

SHARE BUYBACK PROGRAM

HUGO BOSS AG continued its share buyback program in fiscal 2006. The Company exercised the authorization granted by the Annual Shareholders' Meeting on May 4, 2006 and purchased 248,304 common shares and 340,305 preferred shares – 588,609 shares in total – on the capital market in fiscal 2006. HUGO BOSS AG thus held a total of 526,055 common shares and 577,472 preferred shares as of the end of the fiscal 2006. The shares acquired are to be used as counter-performance in the case of possible acquisitions of enterprises and shareholdings in enterprises.

GROUP MANAGEMENT REPORT

SALES BY BRAND

| in € million | 2006 | 2005 | Change in % |
|--------------|----------------|----------------|-------------|
| BOSS | 1,347.9 | 1,167.5 | 15 |
| Menswear | 1,185.7 | 1,071.8 | 11 |
| Womenswear | 162.2 | 95.7 | 69 |
| HUGO | 136.2 | 124.5 | 9 |
| Others | 11.4 | 17.4 | (34) |
| Total | 1,495.5 | 1,309.4 | 14 |

SALES BY REGION

| in € million | 2006 | 2005 | Change in % |
|--------------------------|----------------|----------------|-------------|
| Germany | 346.9 | 318.4 | 9 |
| Other European countries | 681.9 | 582.5 | 17 |
| Americas | 273.6 | 233.4 | 17 |
| Asia/other regions | 150.1 | 134.2 | 12 |
| Royalties | 43.0 | 40.9 | 5 |
| Total | 1,495.5 | 1,309.4 | 14 |

SALES BY QUARTER

| in € million | 2006 | 2005 | Change in % |
|----------------|----------------|----------------|-------------|
| First quarter | 458.9 | 405.6 | 13 |
| Second quarter | 253.2 | 218.7 | 16 |
| Third quarter | 503.5 | 438.6 | 15 |
| Fourth quarter | 279.9 | 246.5 | 14 |
| Total | 1,495.5 | 1,309.4 | 14 |

THE HUGO BOSS GROUP

- **Sales increase by 14% to EUR 1,496 million**
- **Net income rises by 19% to EUR 129 million**
- **BOSS Womenswear: Sales climb by 69%**

ORGANIZATIONAL AND LEGAL FRAMEWORK

The HUGO BOSS Group with headquarters in Metzingen, Germany is one of the most successful international fashion companies in the high-end fashion market, with sales of approximately EUR 1.5 billion and more than 8,400 employees worldwide.

Strategic management of the HUGO BOSS Group is headed by four Managing Board members who are responsible for departments such as marketing, sales, production, logistics, retail, and finances. The operating business is conducted by HUGO BOSS AG and 24 subsidiaries worldwide, whose managing directors report directly to the Managing Board.

As set forth in Section 6 Paragraph 1 of the Company's Articles of Association, the Managing Board of HUGO BOSS AG comprises at least two members. The members of the Managing Board are appointed by the Supervisory Board pursuant to Sections 84 and 85 of the German Stock Corporation Act (AktG) for a maximum of five years. The Supervisory Board decides in accordance with the provisions of the German Stock Corporation Act and the German Co-Determination Act on the number of Managing Board members, the appointment of such members and revocation of the appointments and contracts of employment. According to Section 6 Paragraph 3 of the Articles of Association, Managing Board members should as a rule not be older than 60 years of age upon appointment.

The share capital of HUGO BOSS AG amounts to EUR 70,400,000 and is divided into 35,860,000 common shares (50.9%) and 34,540,000 preferred shares (49.1%) equivalent to a share in the issued share capital of EUR 1.00 per common or preferred share. The shares of HUGO BOSS AG are bearer shares. There are no legal or statutory restrictions on voting rights or transfer of shares; the Managing Board is not aware of any agreements between shareholders to such effect.

Unlike the common shares, the preferred shares are non-voting shares. However, the dividends paid to bearers of non-voting preferred shares from net retained earnings are EUR 0.01 higher per preferred share than the dividends paid to bearers of common shares. Assuming sufficient net profit, the dividend for preferred shares amounts to no less than EUR 0.01 per share.

HUGO BOSS AG issues no shares vested with special rights granting powers of control. No special provisions exist with regard to the exercise of shareholder rights by shareholders that are employees of HUGO BOSS AG. In particular, no voting controls exist.

Pursuant to Section 119 Paragraph 1 Sentence 5 of the German Stock Corporation Act, any changes to the Articles of Association must be approved by the Annual Shareholders' Meeting. Unless

otherwise mandated by the German Stock Corporation Act, resolutions are approved pursuant to Section 17 Sentences 2 and 3 of the Articles of Association by simple majority of the votes cast and – insofar as a majority of the capital is required to be represented for approving a resolution – by simple majority of the share capital represented upon voting on the resolution. According to Section 20 of the Articles of Association, the Supervisory Board is authorized to resolve on modifications to the Articles of Association that affect the wording only.






HUGO BOSS products can be found in more than 100 countries and some 5,700 points of sale. The brand world of HUGO BOSS is made up of the core BOSS brand and the trendy HUGO brand, offering extraordinary fashion diversity at a consistently high level of quality. The textile collections are rounded out by products such as shoes and leather accessories. Licensed products such as fragrances and cosmetics as well as watches and eyewear complete the product range.

To reinforce the focus on the Company's two brands, BOSS and HUGO, the HUGO BOSS Group has sold off the textile activities of the BALDESSARINI brand.

A global sales network with efficient logistics, outstanding product competence, and a high level of quality products distinguish HUGO BOSS as a professional business partner for its international customers.

Intensive marketing activities such as Formula 1 sponsorship, our commitment to the sport of sailing, and promotion of cultural events are leading to worldwide recognition and enhancing the image of the HUGO BOSS brands and our Company.

BRAND OVERVIEW

| | | |
|---|---|---|
|  | <ul style="list-style-type: none"> — [Menswear — [Womenswear — [Accessories | <p>BOSS Black Comprehensive spectrum of elegant business ensembles, casual sports clothing and evening wear.</p> |
|  | <ul style="list-style-type: none"> — [Menswear — [Accessories | <p>BOSS Selection Premium tier of the BOSS brand, implementing best materials and finest workmanship.</p> |
|  | <ul style="list-style-type: none"> — [Menswear — [Womenswear — [Accessories | <p>BOSS Orange Casual fashion for men and women, unusual materials, vibrant colors and intricate details.</p> |
|  | <ul style="list-style-type: none"> — [Menswear — [Sports Accessories | <p>BOSS Green Fashion-oriented collection that promises optimum performance for sports and fashion.</p> |
|  | <ul style="list-style-type: none"> — [Menswear — [Womenswear — [Accessories | <p>HUGO Self-confident men’s and women’s collection that combines creativity and individuality into an unconventional and avant-garde fashion.</p> |

INTERNAL CONTROL SYSTEM OF THE HUGO BOSS GROUP

We proactively support the goal of securing long-term success for the HUGO BOSS Group on a sustained basis and continuing to expand the Company via a system of internal controls. The information systems of the HUGO BOSS Group make use of actual and forecasted figures to link strategic and operating elements in real-time, accompanied by regular – and, where necessary, action-oriented – communications. This management control system is characterized by customer orientation, efficiency, and high levels of transparency. It also assists in coordinating the activities of our subsidiaries and supports decentralized responsibility.

Specifically, the internal control system encompasses strategic planning for the Group, a Group reporting system, key performance indicators (KPI) reports tailored to individual segments and subsidiaries, and a data warehouse. Strategic planning for the Group is formulated for three years and is revised annually as part of the comprehensive budget process. Under the Group reporting system, all subsidiaries prepare IFRS statements on a monthly basis. This data is consolidated into management reporting and incorporated into the published quarterly and annual reports of the Group. Subsidiaries submit assessments of current business developments and anticipated annual results at regular intervals. The detailed KPI reports support Group management in controlling the segments, the subsidiaries, and operating processes. The data warehouse provides management throughout the Group with direct access to management information, which is in part updated daily. The internal control system is optimized continuously and adapted to developments within the Group as well as to increasing requirements.

The table below shows the most important indicators, which are subject to continuous monitoring and which provide the focus for Group-wide optimization.

KEY PERFORMANCE INDICATORS AND KEY FIGURES

| | | 2006 | 2005 |
|-----------------------------------|--------------|-------------|-------------|
| Net sales | in € million | 1,495.5 | 1,309.4 |
| Gross margin ratio | in % | 57.1 | 55.9 |
| EBITDA | in € million | 233.4 | 204.2 |
| EBIT | in € million | 184.4 | 162.9 |
| EBIT margin | in % | 12.3 | 12.4 |
| Return on sales | in % | 8.6 | 8.3 |
| Net working capital ¹ | in € million | 298.7 | 279.5 |
| Return on investment ² | in % | 29.4 | 27.4 |

¹ Net current assets.

² EBIT/Net capital invested (average).

The HUGO BOSS Group's internal control system is especially significant in light of the fact that the variable component of compensation for the Group's top management is linked to the indicators mentioned above.

FISCAL 2006

IN REVIEW

GLOBAL ECONOMIC DEVELOPMENTS

The global economy continued on its growth path in 2006. According to estimates by the "International Monetary Fund" (IMF) and the "Organization for Economic Cooperation and Development" (OECD), international economic performance accelerated despite sharp increases in certain commodities prices, i. e., the total gross domestic product increased from 4.9% in 2005 to 5.1% in 2006. The price of crude oil, for example, reached a new record level of over USD 75 per barrel in the course of the summer. However, inflationary pressure remained in check for the year as a whole due to the marked decrease in oil prices at the end of the year. Central banks in the USA and the euro zone nonetheless raised prime rates several times in 2006 in order to ward off potential inflation risks in advance. The increase in key interest rates to 5.25% in the U. S. and 3.50% in Europe in 2006 had the effect of additionally slowing growth in the world's two largest economies.

Despite the slight decline in domestic economic activity in the USA, the IMF anticipates the gross national product for 2006 of the world's largest economy to increase to 3.4%. While real estate markets in the U. S. slumped, private consumption continued to rise. However, at an average of 3.3%, consumer prices increased at a lower rate than in the previous year. Moreover, the U. S. unemployment rate decreased from 5.1% to 4.6% at the end of 2006, which also positively impacted overall economic performance in the U. S.

The euro zone also gained strength in the previous year according to estimates by the OECD, which raised its forecast for economic growth in the euro region for 2006 from 2.2% to 2.7%. Consumer sentiment indexes also showed a stable trend in the euro zone. This growth will be primarily driven by strong domestic demand. Due to higher capacity utilization, corporate capital expenditure increased with financing terms remaining relatively favorable. The unemployment rate in the euro area fell from 8.6% to 7.9% within one year as a result of the pronounced upswing. Private consumption increased more than in previous years, rising by approximately 1.9% over the course of the year despite some declines in real income based on oil prices.

The trend in the Federal Republic of Germany was particularly encouraging. According to the Federal Office of Statistics, the gross domestic product rose by 2.7% thanks to high export momentum and growing consumer spending. This development was supported by the low increase in labor costs in comparison with other European countries, which helped to increase competitiveness of German manufacturers. However, the significant upward revaluation of the euro against the U. S. dollar over the course of the year curbed growth. Employment levels increased due to the rise in economic activity. This resulted in a decrease in the unemployment rate of approximately 1 percentage point in comparison with 2005, to 8.0%, which served to additionally boost domestic demand. The rise in consumer prices was relatively moderate at 1.7% (2005: 2.3%).

For the Asian region, the major German economic research institutes again predicted significant economic growth in their fall surveys conducted in October 2006. For Japan, the OECD is forecasting growth of 2.1% in the gross domestic product (2005: 1.9%), supported by a rise in corporate capital expenditure based on improved financing conditions and increasing corporate profits. Private consumption, however, is decreasing because the situation in the employment market is not improving and private income is stagnating. In Japan, consumer prices for 2006 as a whole are expected to increase by 0.4% (2005: -0.3%).

For the People's Republic of China, the OECD is projecting a continuation of strong economic growth. Experts anticipate a rise in the gross domestic product of 10.5% for this upcoming economy. India is expected to register growth rates of 8.3% for 2006, according to the OECD. For the remaining Asian countries, experts at German economic research institutes are predicting growth of the gross domestic product of 5.2%.

Central and Eastern Europe are also seeing dynamic growth. According to the IMF, economic output for this region in 2006 is expected to grow by 5.3%. The Russian economy is playing a leading role here, with an anticipated increase of 6.5%.

SECTOR DEVELOPMENT

The German fashion market has stabilized at a low level. The fashion market increased by approximately 1% in Germany in fiscal 2006 in comparison with 2005, benefiting along with other sectors from the overall improvement in consumer sentiment. Consumers were less price sensitive in 2006 than in previous years. The growth in sales was largely attributable to increased demand for branded and luxury articles, which resulted in higher average revenues per customer.

The end-of-year holiday business in the German fashion market got off to a slow start due to the warm winter weather, though business picked up in the second half of December. By contrast, anticipatory effects from the increase in the value added tax to 19% in Germany starting in January 2007 did not set in as expected in the fourth quarter.

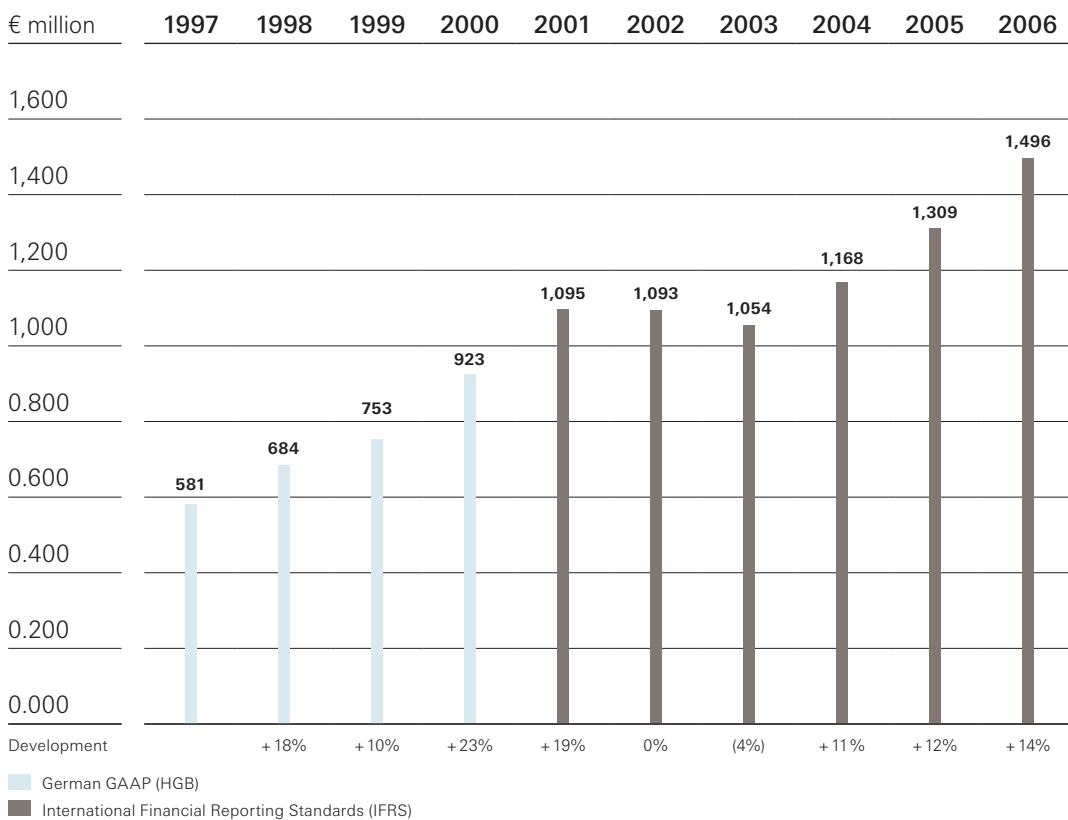
Other major international fashion markets have also experienced a slight increase. Private consumer spending increased in the U.S. despite the cooling off of the U.S. real estate market as described above, which had a great impact on disposable income in the USA. The U.S. market thus continued moving upward with growth of 3%. The good performance of the Asian economies was reflected in the local fashion markets. These markets also showed a favorable trend, with average growth of 5% to 6%.

The world fashion market grew by a total of 4% in 2006.

FINANCIAL PERFORMANCE

GROUP SALES RISE BY 14%

DEVELOPMENT OF GROUP SALES



HUGO BOSS again closed the fiscal year 2006 with Group sales at a record level. Total sales for 2006 increased by 14% to EUR 1,496 million (2005: EUR 1,309 million). All major economic regions contributed to this success with double-digit percentage sales growth. The Americas experienced the highest growth rate (+17%), followed by Europe with sales growth of 14%.

BOSS Womenswear made a significant contribution to the excellent sales trend in the 2006 reporting year. The two womenswear lines, BOSS Black Womenswear and the leisure-oriented BOSS Orange Womenswear line that was launched on the market in fiscal 2006, increased by a total of 69% to EUR 162 million (2005: EUR 96 million).

In fiscal 2006, the Group expanded the product segment of shoes and leather accessories, which is of particular significance for the women's clothing business. Sales growth of 28% to EUR 151 million (2005: EUR 118 million) illustrates the increasing significance of these product groups.

Another key contribution to the positive sales trend was made by the accelerated expansion of sales via the Group's directly operated stores (DOS), with 65 new locations leading to an increase of 39% to EUR 192 million (2005: +41% to EUR 138 million). The share of DOS sales thus rose to 13% of total sales.

On the whole, the effects of currency fluctuations in fiscal 2006 had an only minor impact on sales performance. The balance of the negative effects due to the weaker U.S. dollar and the decline over the year of the Japanese yen were countered by positive effects from a firmer Canadian dollar over the course of the year, resulting in a slightly positive impact on currency-adjusted sales performance.

Adjusted for currency fluctuations, the increase in Group sales was 14% in both local currencies and the reporting currency.

HUGO BOSS generated double-digit percentage sales growth in all quarters of fiscal 2006. Sales in the fourth quarter of fiscal 2006, for instance, increased by 14% to EUR 280 million (Q4 2005: EUR 247 million). The first three quarters of 2006 experienced similar sales momentum.

GERMANY

Against the backdrop of economic revival, the German fashion market has stabilized at a low level, increasing by approximately 1% in comparison with the previous year (2005: -1%).

HUGO BOSS again significantly outperformed the market with sales growth of 9% again increasing its market shares in the domestic market. Total sales in Germany increased to EUR 347 million (2005: EUR 318 million).

The womenswear collections under the BOSS brand were once again among the most successful women's collections in Germany in 2006 with a sales gain of 65%. Total womenswear business, which include BOSS Black Womenswear and the new BOSS Orange Womenswear collection, increased to EUR 43 million (2005: EUR 26 million). In addition to the textile collections, steady expansion of the shoes and leather accessories product group also contributed to the good performance of the womenswear business.

OTHER EUROPEAN COUNTRIES

SALES IN OTHER EUROPEAN COUNTRIES

| in € million | 2006 | 2005 | Change in % |
|---------------------------------|--------------|--------------|-------------|
| France | 124.9 | 117.9 | 6 |
| Great Britain/Ireland | 104.3 | 92.3 | 13 |
| Benelux | 104.8 | 86.7 | 21 |
| Scandinavia | 59.5 | 51.1 | 16 |
| Italy | 52.0 | 49.3 | 5 |
| Switzerland | 36.0 | 28.9 | 25 |
| Spain | 64.4 | 42.2 | 53 |
| Rest of Europe | 136.0 | 114.1 | 19 |
| Other European countries | 681.9 | 582.5 | 17 |
| in % of total sales | 46 | 44 | |

Sales in the rest of Europe excluding Germany increased by 17% in fiscal 2006 to a total of EUR 682 million (2005: EUR 583 million). HUGO BOSS accordingly increased its market share in all key European markets.

Once again, Spain saw the highest growth in percentage terms. Sales increased in this market by 53% over the 2005 figure to EUR 64 million (2005: EUR 42 million), buoyed by the opening of nine directly operated stores. In Scandinavia, sales rose by 16% to EUR 60 million in 2006 (2005: EUR 51 million). Sales in Switzerland increased by 25% to EUR 36 million (2005: EUR 29 million), or 27% on a currency-adjusted basis. In Austria, sales increased by 10% to EUR 46 million (2005: EUR 42 million). The Benelux countries saw a sales increase of 21% to EUR 105 million (2005: EUR 87 million), supported by the opening of a total of 24 directly operated stores in the course of fiscal 2006 with a focus on the shop-in-shop concept. In the Central and Eastern European markets, sales improved by 21% to EUR 64 million (2005: EUR 53 million).

Sales in France, HUGO BOSS' second largest European market, increased by 6% in 2006 to EUR 125 million (2005: EUR 118 million). In Great Britain/Ireland, sales for fiscal 2006 increased by 13% in both the reporting currency and local currency to a total of EUR 104 million (2005: EUR 92 million).

In Italy sales improved by 5% to EUR 52 million (2005: EUR 49 million).

THE AMERICAS

SALES IN THE AMERICAS

| in € million | 2006 | 2005 | Change in % |
|---------------------|--------------|--------------|-------------|
| USA | 195.8 | 167.7 | 17 |
| Canada | 55.1 | 45.0 | 22 |
| Mexico | 14.6 | 14.5 | 1 |
| Brazil | 2.2 | 1.4 | 57 |
| Rest of Americas | 5.9 | 4.8 | 23 |
| Americas | 273.6 | 233.4 | 17 |
| in % of total sales | 18 | 18 | |

HUGO BOSS registered the highest sales growth in percentage terms in the markets on the American continents in fiscal 2006, with sales increasing by 17% in the reporting currency and in local currencies. The stronger Canadian dollar nearly fully compensated for the negative currency effects from the weakening of the U. S. dollar over the course of the year.

Total sales for these key fashion markets amounted to EUR 274 million in 2006 (2005: EUR 233 million).

In the USA, HUGO BOSS' second-most important market after Germany in terms of sales, sales growth continued to accelerate in fiscal 2006, with sales rising by 18% on a currency-adjusted basis or 17% in the reporting currency to a total of EUR 196 million (2005: EUR 168 million). Wholesale sales improved by 15% in the U. S. Sales in the Group's own retail business increased by 21% supported by the opening of three directly operated stores.

In Canada, sales increased by 15% in local currency. Due to positive currency effects, sales in the reporting currency rose by 22% from EUR 45 million to EUR 55 million as of the end of fiscal 2006. BOSS Womenswear in particular played a crucial role in this good performance.

The sales increase in the countries of Central and South America was relatively moderate by comparison, with sales for this region rising by 9% in local currencies. In Group currency sales rose by 10% to EUR 23 million (2005: EUR 21 million).

ASIA/OTHER REGIONS

SALES IN ASIA/OTHER REGIONS

| in € million | 2006 | 2005 | Change in % |
|----------------------------|--------------|--------------|-------------|
| Japan | 40.1 | 39.9 | 1 |
| Australia | 22.1 | 18.5 | 19 |
| People's Republic of China | 34.1 | 27.4 | 24 |
| Other countries | 53.8 | 48.4 | 11 |
| Asia/other regions | 150.1 | 134.2 | 12 |
| in % of total sales | 10 | 10 | |

In Asia/other regions, the HUGO BOSS Group again achieved double-digit percentage sales growth as expected with a sales gain of 14% in local currencies. Due to negative currency effects from the downward trend of the Japanese yen, sales in the Group currency rose by 12% to EUR 150 million (2005: EUR 134 million).

In Japan, the HUGO BOSS Group operates exclusively via a network of directly operated stores. The HUGO BOSS fashion Group expanded its presence in this key market by opening another nine shop-in-shops, increasing the total to 73 DOS as at the end of 2006 (2005: 64). Sales in Japan rose by 7% in local currency despite declining private consumption. Due to the negative currency effects mentioned above, sales in the reporting currency remained at the prior-year level of EUR 40 million in 2006 (2005: EUR 40 million).

HUGO BOSS has responded to the increasing importance of the Chinese growth market by opening its first directly operated store in Shanghai. In comparison with fiscal 2005, sales in local currency increased in fiscal 2006 by 25%. In Group currency sales rose by 24% to EUR 34 million (2005: EUR 27 million).

Sales in the remaining countries of Asia/other regions increased by 14% in local currencies and 13% in the reporting currency. Total sales in these countries rose to EUR 76 million as of the end of fiscal 2006 (2005: EUR 67 million).

ROYALTIES

ROYALTIES

| in € million | 2006 | 2005 | Change in % |
|------------------------|-------------|-------------|-------------|
| Royalties, textile | 0.0 | 0.0 | |
| Royalties, non-textile | 43.0 | 40.9 | 5 |
| Royalties | 43.0 | 40.9 | 5 |

Royalty income performed well in fiscal 2006, thanks in particular to licensed products such as fragrances and watches. Total royalty income rose by 5% to EUR 43 million (2005: EUR 41 million).

As a result of the successful market launch of six new fragrances, royalties from this product group increased by approximately 6%. Along with the "Femme by BOSS" fragrance series, which was introduced in September 2006, the "BOSS Selection" men's fragrance made a particular contribution to this performance.

The former eyewear collection was sold off in the first half of 2006 in connection with a change in licensee for this product group, and the current models from the new licensee, Safilo S.p.A., were launched on the market in the second half of the year. For this reason, eyewear royalties still declined slightly on the whole.

By contrast, the watches product group performed satisfactorily. After selling off remaining inventories, the HUGO BOSS Group began including the collections of the new licensee for watches, the Movado Group, Inc., in the attractive segment of luxury fashion watches.

BRAND SALES: EUR 2.0 BILLION

Brand sales achieved by HUGO BOSS products worldwide in 2006 are calculated by adding sales generated by HUGO BOSS licensees to HUGO BOSS sales excluding royalties. This figure grew by 12% to EUR 1,971 million in fiscal 2006 when compared to the previous year (2005: EUR 1,753 million).

BOSS MENSWEAR

In fiscal 2006, sales of BOSS Menswear increased by 11% to a total of EUR 1,186 million (2005: EUR 1,072 million).

While the German fashion market as a whole improved only slightly by 1% in comparison with 2005, BOSS Menswear performed well in 2006 with domestic sales growth of 5%. Other major fashion markets experienced a similar trend, enabling BOSS Menswear to increase its global market share to a total of approximately 14%.

The trend toward high-end leisure fashion continued in fiscal 2006 with sales in this product category rising by 16% to EUR 487 million (2005: EUR 420 million). The share of high-end leisure fashion in BOSS Menswear sales climbed to 41% (2005: 39%).

The product group of shoes and leather accessories registered the highest growth in the men's clothing segment with an increase of 18% to EUR 116 million (2005: EUR 98 million).

Businesswear sales also rose during the 2006 reporting period, improving 5% to EUR 583 million (2005: EUR 554 million).

Particularly noteworthy was the dynamic growth of BOSS Selection. Sales rose by 62% to EUR 33 million as of the end of fiscal 2006 (2005: EUR 21 million).

BOSS WOMENSWEAR

The sustained upward trend of BOSS Womenswear continued in fiscal 2006 with sales growth of 69% to EUR 162 million (2005: EUR 96 million). In addition to the successful launch of BOSS Orange Womenswear, which contributed EUR 33 million to sales growth, sales of BOSS Black Womenswear rose by 36% to EUR 129 million (2005: EUR 96 million).

HUGO

HUGO, the fashion brand in the HUGO BOSS brand portfolio, was marketed in 48 countries in fiscal 2006. HUGO increased sales by 9% to EUR 136 million in the year under review (2005: EUR 125 million) and succeeded in expanding on the brand's position in key fashion markets.

BALDESSARINI

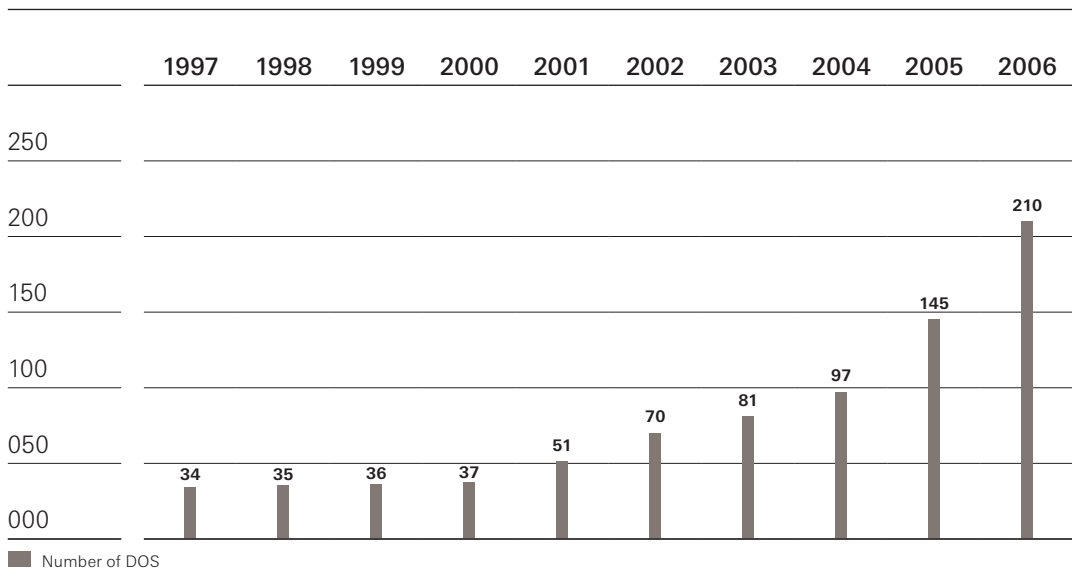
The successful market launch of BOSS Selection has enabled HUGO BOSS to cover the high-end market segment in its brand portfolio. For this reason, the textile activities of the BALDESSARINI

brand were sold off as of September 1, 2006. This led to a decrease in sales, including licensing income from fragrance sales, of 34% to EUR 11 million (2005: EUR 17 million).

SALES GROWTH IN THE DOS CHANNEL

In fiscal 2006, the HUGO BOSS Group focused on increasing sales via directly operated stores (DOS) and expanded its presence in the Group's key fashion markets. The Group emphasized the shop-in-shop concept in fiscal 2006, with the opening of 46 new stores. The global network of directly operated stores comprised 210 retail locations as of the end of fiscal 2006 (2005: 145), 67 of which are freestanding stores and 143 are shop-in-shops.

NUMBER OF DIRECTLY OPERATED STORES



In September 2006, the first directly operated HUGO BOSS store was opened in the People's Republic of China, in Shanghai. This new retail location, with floor space of 402 m², represents a crucial step in strengthening HUGO BOSS' brand image in this key Asian growth market. HUGO BOSS has also opened new stores at attractive locations in other international hotspots such as Zurich, Milan, and Sloane Square in London.

DOS sales in fiscal 2006 grew by a total of 39% to EUR 192 million (2005: EUR 138 million). The proportion of sales via directly operated stores rose to approximately 13%. Based on comparable floor space, sales increased by 6% compared to fiscal 2005.

Taking into account the 841 franchise stores, the HUGO BOSS Group currently has a total of 1,051 mono-brand stores.

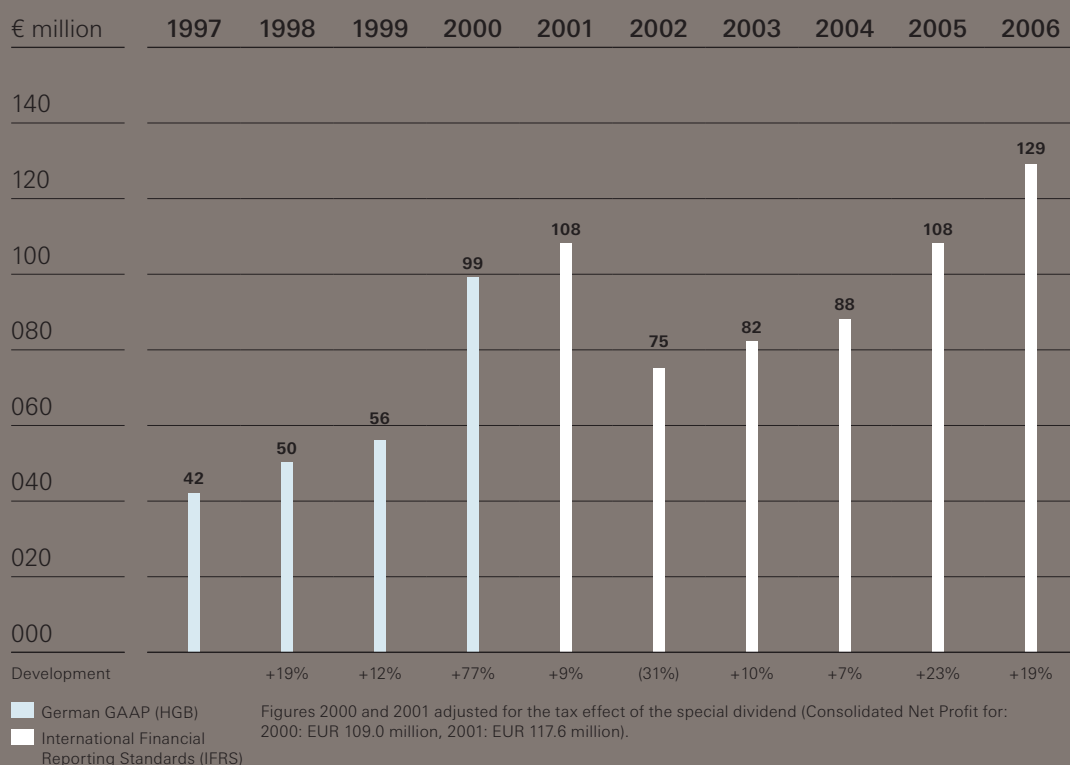
INCOME STATEMENT

| in € million | 2006 | 2005 | Change in % |
|--|----------------|----------------|-------------|
| Sales | 1,495.5 | 1,309.4 | 14 |
| Cost of materials incl. changes in inventories | (641.0) | (577.7) | (11) |
| Gross margin | 854.5 | 731.7 | 17 |
| in % of sales | 57.1 | 55.9 | |
| Other operating income and expenses | (343.3) | (289.3) | (19) |
| Personnel expenses | (277.8) | (238.2) | (17) |
| Depreciation/amortization ¹ | (49.0) | (41.3) | (19) |
| EBIT | 184.4 | 162.9 | 13 |
| Net financial result | (4.5) | (5.7) | 21 |
| Earnings before taxes | 179.9 | 157.2 | 14 |
| Taxes on income | (51.2) | (49.0) | (4) |
| Net income | | | |
| total | 128.7 | 108.2 | 19 |
| per share (EUR)² | | | |
| common stock | 1.84 | 1.54 | 19 |
| preferred stock | 1.86 | 1.55 | 20 |

¹ Including impairments.

² Stock options program: Only phantom stocks issued, so no dilution of number of outstanding shares.

NET INCOME: 10-YEAR OVERVIEW



INCOME STATEMENT

In fiscal 2006, the HUGO BOSS fashion Group increased net income by 19% to EUR 129 million (2005: EUR 108 million), setting another record in net income.

Earnings before taxes rose by 14% to EUR 180 million (2005: EUR 157 million).

The following key factors influenced the income statement for fiscal 2006:

INCOME DEVELOPMENT

in € million

| | | |
|--|--------|--------------|
| Net income 2005 | | 108.2 |
| Change in gross margin | | 122.8 |
| Effect of sales volume on gross margin | 100.2 | |
| Effect from changes in the gross margin percentage | 20.5 | |
| Change in royalties | 2.1 | |
| Change in operating expenses and depreciation/amortization | | (101.3) |
| from other operating expenses | (54.0) | |
| from personnel expenses | (39.6) | |
| from depreciation/amortization | (7.7) | |
| Change in financial result | | 1.2 |
| Change in taxes | | (2.2) |
| Change in earnings before tax | (7.1) | |
| Other tax effects | 4.9 | |
| Net income 2006 | | 128.7 |

GROSS MARGIN PERCENTAGE

The gross margin percentage increased by 1.2 percentage points in 2006 to 57.1% (2005: 55.9%).

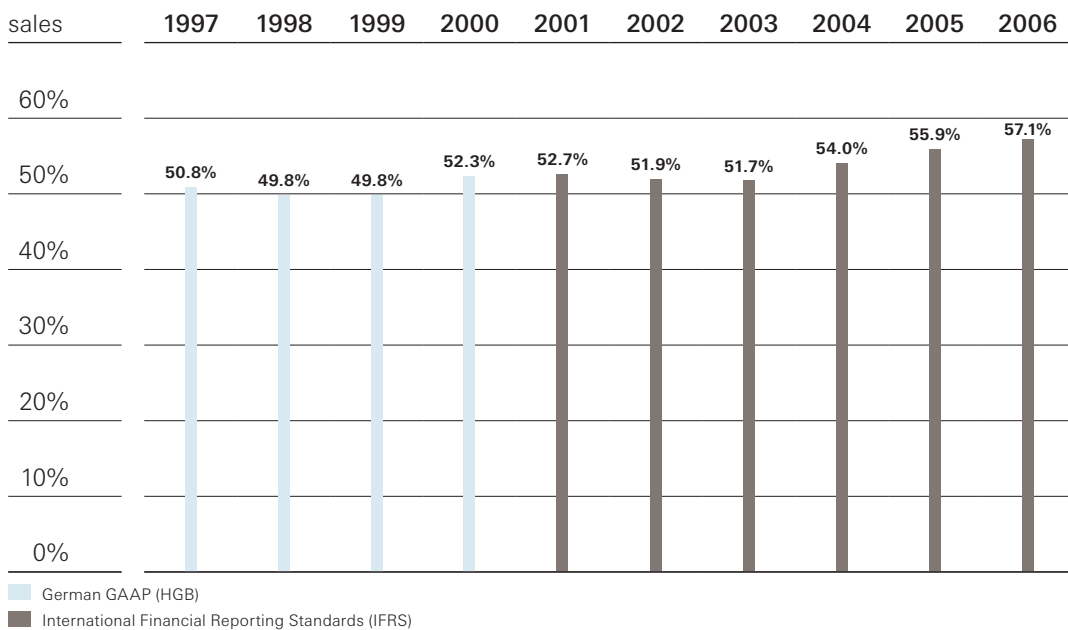
A significant factor leading to the higher gross margin percentage was the greater share of sales via directly operated stores (DOS) in comparison with the prior-year period. The share of DOS sales as a percentage of total sales increased to 13% (2005: 11%).

Additional improvements in global purchasing structures also contributed to the increase in gross margin percentage.

These positive effects were countered by lower growth momentum in the licensing business in fiscal 2006 in comparison to the core textile business and the resulting decrease in the share of royalties in total sales.

GROSS MARGIN PERCENTAGE¹

in % of
sales



¹ Sales revenues less cost of materials including changes in inventories.

OTHER OPERATING INCOME AND EXPENSES

Other operating income, net rose by 19% in fiscal 2006 to a total of EUR 343 million (2005: EUR 289 million).

In addition to the general expansion of the business, the rise in operating expenses was primarily caused by the expansion of sales via the Group's own retail stores, which entailed additional rental expenses, for instance.

Higher expenses were also incurred in fiscal 2006 for creating fashion collections based on the market launch of the new leisure-oriented line, BOSS Orange Womenswear.

In order to support the HUGO BOSS brands, especially the new BOSS Orange Womenswear line, a total of approximately EUR 113 million (2005: EUR 103 million) was spent on marketing after deducting marketing costs passed on to distributors. This corresponds to approximately 8% of total sales (2005: 8%).

PERSONNEL EXPENSES

The ongoing profitable growth of the HUGO BOSS Group made it necessary to continue increasing human resources capacities in fiscal 2006.

Activities in the past fiscal year focused on the areas of production and logistics as well as the Group's own retail business. Moreover, additional employees were hired due to the good business trend of the shoes and leather accessories product groups and expansion of the BOSS Orange Womenswear collections.

The increase in the number of employees, along with the rise in share price of HUGO BOSS AG shares, led to higher expenditures for the stock appreciation rights program.

Total personnel expenses for the fiscal 2006 rose by 17% over the prior-year period to EUR 278 million (2005: EUR 238 million).

DEPRECIATION AND AMORTIZATION

Depreciation, amortization and impairment for 2006 rose by 19% to a total of EUR 49 million (2005: EUR 41 million), largely due to increased investment in directly operated stores, showrooms, and software as well as in operating and office equipment in fiscal 2006 and in previous periods.

OPERATING RESULT

Due to the influences described above, the operating result (EBIT) for fiscal 2006 increased by 13% to EUR 184 million (2005: EUR 163 million).

NET FINANCIAL RESULT

The net financial expense for fiscal 2006 was EUR 5 million (2005: net financial expense of EUR 6 million). The improvement from fiscal 2005 was in particular due to positive exchange rate effects in fiscal 2006.

TAX RATE

The average tax rate for the HUGO BOSS Group declined again in 2006 as a result of the increasing internationalization of the HUGO BOSS business and the resulting higher shares of earnings contributed by foreign subsidiaries located in countries where lower tax rates apply than in Germany.

The tax income resulting from capitalization of the existing corporate tax credit was partially offset by other factors impacting the corporate tax rate, such as the necessity to adjust the applicable tax rate for calculating deferred taxes on consolidation effects and supplementary taxes imposed for previous years.

Taking into account all tax-relevant circumstances, the tax rate of 28% in fiscal 2006 was nearly 3 percentage points below that of the previous fiscal year (2005: 31%).

EARNINGS PER SHARE

Earnings per share rose in accordance with net income of the HUGO BOSS Group. Earnings per common share increased by 19% to EUR 1.84 (2005: EUR 1.54), and earnings per preferred share by 20% to EUR 1.86 (2005: EUR 1.55). The common and preferred shares acquired by the HUGO BOSS Group as part of the share buyback program are not entitled to dividends. This factor was taken into account in the calculation of earnings per share. The HUGO BOSS stock option plan did not dilute earnings per share, since the plan is based on phantom stocks (stock appreciation rights).

SEGMENT INFORMATION BY PRODUCT AREA

| | Menswear segment ¹ | | Womenswear segment | |
|---|----------------------------------|----------------|-----------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| in € million | | | | |
| Sales | 1,333.3 | 1,213.7 | 162.2 | 95.7 |
| Depreciation/amortization | (42.9) | (38.2) | (6.1) | (3.1) |
| EBIT | 173.1 | 157.9 | 11.3 | 5.0 |
| in % of sales | 13.0 | 13.0 | 7.0 | 5.2 |
| Net income | 120.9 | 106.1 | 7.8 | 2.1 |
| in % of sales | 9.1 | 8.7 | 4.8 | 2.2 |
| Assets | 866.0 | 788.1 | 87.2 | 65.9 |
| Liabilities | 320.8 | 261.5 | 138.0 | 124.7 |
| Equity | 545.2 | 526.6 | (50.8) | (58.8) |
| Capital expenditure | 93.3 | 73.2 | 5.2 | 3.4 |
| Number of employees (Full-time equivalents) | 7,820 | 6,997 | 621 | 587 |

¹ Existing men's collections business. Amounts attributable to the HUGO Woman product line have been included to simplify the presentation.

SEGMENT INFORMATION BY REGION

| | 2006 | | 2005 | |
|----------------------------|----------------|------------|----------------|------------|
| | in € million | in % | in € million | in % |
| Sales | | | | |
| Germany | 346.9 | 23 | 318.4 | 25 |
| Other European countries | 681.9 | 46 | 582.5 | 44 |
| Americas | 273.6 | 18 | 233.4 | 18 |
| Asia/other regions | 150.1 | 10 | 134.2 | 10 |
| Royalties | 43.0 | 3 | 40.9 | 3 |
| Total | 1,495.5 | 100 | 1,309.4 | 100 |
| Assets | | | | |
| Germany | 351.1 | 37 | 324.4 | 38 |
| Other European countries | 399.6 | 42 | 331.8 | 39 |
| Americas | 134.8 | 14 | 133.3 | 16 |
| Asia/other regions | 53.1 | 5 | 51.7 | 6 |
| Royalties | 14.6 | 2 | 12.8 | 1 |
| Total | 953.2 | 100 | 854.0 | 100 |
| Capital expenditure | | | | |
| Germany | 34.9 | 35 | 25.8 | 34 |
| Other European countries | 49.5 | 50 | 40.3 | 53 |
| Americas | 9.7 | 10 | 8.7 | 11 |
| Asia/other regions | 4.4 | 5 | 1.8 | 2 |
| Total | 98.5 | 100 | 76.6 | 100 |

SEGMENT REPORTING

MENSWEAR SEGMENT

Sales in the menswear segment increased by 10% to EUR 1,333 million in fiscal 2006 (2005: EUR 1,214 million). Due to strong sales growth in the womenswear segment, the share of the menswear segment in total sales declined to 89% (2005: 93%).

In fiscal 2006, the German fashion market increased by approximately 1% in comparison with 2005. Sales of the HUGO BOSS Menswear brands rose by 4% in Germany to EUR 304 million (2005: EUR 292 million). International fashion markets also registered positive performance. Outside of Germany, HUGO BOSS increased menswear sales by 12% to EUR 1,029 million (2005: EUR 922 million).

Operating income and expenses amounted to EUR 587 million in 2006 (2005: EUR 520 million), up 13% from the prior year due the expansion of DOS sales and the general increase in business volume. The operating result (EBIT) improved by 10% over the prior year to EUR 173 million (2005: EUR 158 million).

As a whole, net income in the menswear segment rose by 14% in fiscal 2006 to EUR 121 million (2005: EUR 106 million).

WOMENSWEAR SEGMENT

Sales in the womenswear segment rose by 69% in comparison with 2005 to EUR 162 million (2005: EUR 96 million). In addition to the successful launch of BOSS Orange Womenswear, which contributed EUR 33 million to sales growth, sales of BOSS Black Womenswear experienced similar dynamic growth as in 2005, rising by 36% to EUR 129 million as of year-end 2006 (2005: EUR 96 million). Since, in percentage terms, the womenswear segment experienced a higher increase in sales than the menswear segment, the share of the womenswear segment in total sales of the HUGO BOSS Group grew to 11%.

Operating income and expenses for the 2006 reporting year increased by 72% to EUR 84 million (2005: EUR 49 million) due the newly launched BOSS Orange Womenswear line and due to the increase in business volume of the BOSS Black Womenswear line in comparison with the prior year. The operating result (EBIT) for the womenswear segment increased significantly in comparison with fiscal 2005 by EUR 6 million to EUR 11 million (2005: EUR 5 million) as a result of improved economies of scale due to the higher number of items sold and due to the further optimization of business processes. As a consequence, the EBIT ratio improved from 5.2% to 7.0% as of the end of fiscal 2006. Net earnings in the womenswear segment increased considerably, from EUR 2 million to EUR 8 million.

FINANCIAL POSITION

FINANCIAL MANAGEMENT

The objectives, principles, tasks, and authorities relating to financial management are set out in the mandatory Group-internal, treasury guidelines.

Group companies are financed either by utilizing liquidity surpluses from other corporate units in cash pools or through Group borrowings. This internal financing mechanism serves to minimize debt finance volumes of the HUGO BOSS Group and positively impacts net interest result.

The external financing relates to a borrower's note amounting to EUR 25 million as of December 31, 2006, which falls due in December 2007.

In addition, the Group used bank credit lines to cover short-term financial requirements as well as liquidity reserves. The Group has at its disposal approved credit lines of EUR 314 million, EUR 122 million of which had been utilized as of the end of the year. Thus, an additional EUR 192 million was available as liquidity reserve. The conditions for short-term bank credit lines are based on the creditworthiness of the HUGO BOSS Group as established by internal bank rankings. The HUGO BOSS Group has been classified as Investment Grade under this system. HUGO BOSS enjoys favorable conditions in the financial markets due to this very good to good credit rating.

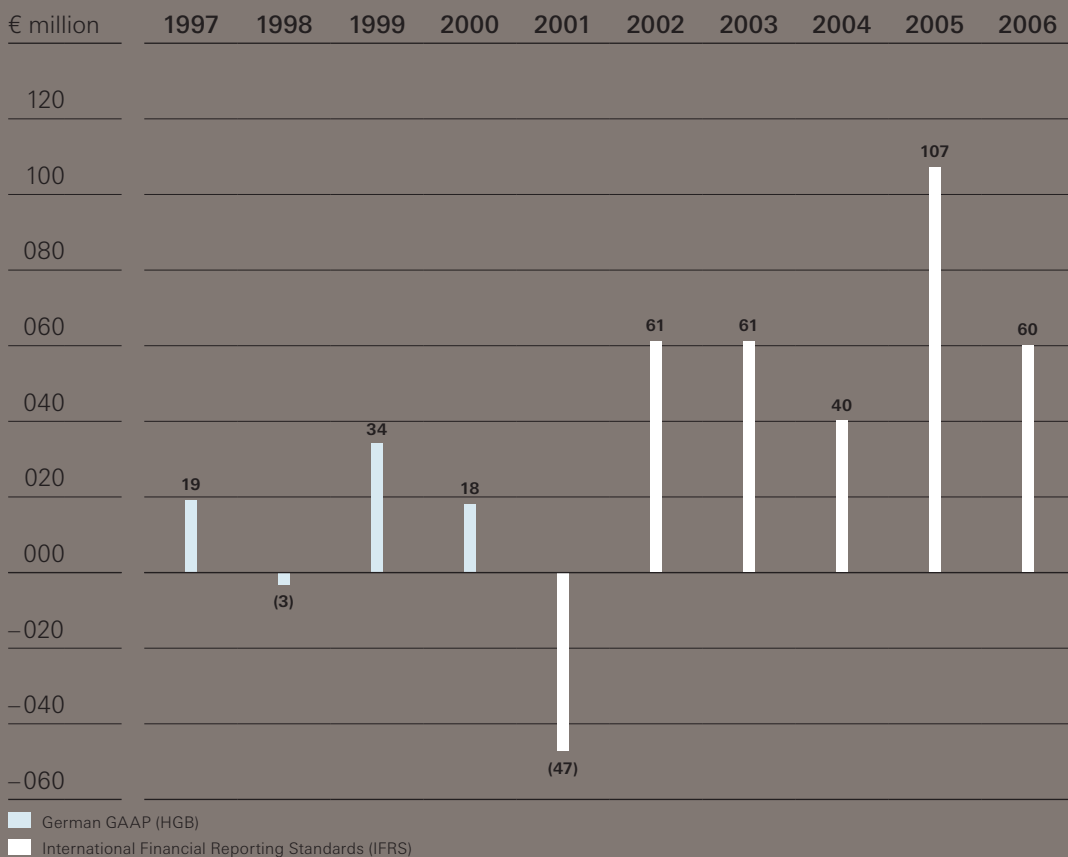
Dependence on interest rate developments is minimal due to the low debt finance level. Nevertheless, interest rate swaps and interest rate caps and floors are utilized where needed to limit interest rate risks.

The methods employed by the HUGO BOSS Group for hedging against exchange rate fluctuations are explained on page 083.

FREE CASH FLOW

| in € million | 2006 | 2005 | Absolute change |
|---|--------------|--------------|-----------------|
| Net income | 128.7 | 108.2 | 20.5 |
| Depreciation/amortization | 49.0 | 41.3 | 7.7 |
| Change in pension provisions | 7.8 | 4.4 | 3.4 |
| Cash flow | 185.5 | 153.9 | 31.6 |
| Net additions to fixed assets | (89.3) | (75.7) | (13.6) |
| Change in remaining net capital invested | (4.0) | 25.5 | (29.5) |
| Share repurchase | (19.0) | (10.0) | (9.0) |
| Currency translation and other equity changes | (12.9) | 13.2 | (26.1) |
| Free cash flow before dividends | 60.3 | 106.9 | (46.6) |
| Dividend payment | (70.2) | (59.2) | (11.0) |
| Free cash flow | (9.9) | 47.7 | (57.6) |

FREE CASH FLOW BEFORE DIVIDENDS: 10-YEAR OVERVIEW



CASH FLOW

Net income rose by 19% over the prior-year period to EUR 129 million in fiscal 2006 (2005: EUR 108 million).

Depreciation, amortization and impairment for 2006 increased by 19% to EUR 49 million due to higher investments in fiscal 2006 and in previous periods (2005: EUR 41 million).

The item "change in pension provisions" increased by EUR 4 million to EUR 8 million (2005: EUR 4 million) as a result of increased possibilities for funding pensions via salary conversion and an increase of 11% in the number of employees based on the general growth of the HUGO BOSS Group.

As a result, cash flow, i.e., net income including depreciation, amortization and impairment as well as changes in pension provisions, rose by 21% over the previous year to EUR 186 million (2005: EUR 154 million).

Outflows for net additions to fixed assets reduced cash and cash equivalents by EUR 89 million in fiscal 2006 (2005: EUR 76 million) after deducting cash inflows from disposals of fixed assets.

In addition, own shares totaling EUR 19 million were purchased via the stock exchange in fiscal 2006 (2005: EUR 10 million) as part of the share buyback program.

The item "currency translation and other equity changes" reflects foreign exchange differences arising from the consolidation of foreign subsidiaries. In fiscal 2006, these amounted to outflows of EUR 13 million (2005: inflows of EUR 13 million). A negative effect resulted from the decline in the closing rates of foreign currencies against the reporting currency, particularly the U.S. dollar and the Canadian dollar.

Free cash flow before dividends, i.e., the change in net debt before dividend payments, declined considerably in comparison with the prior-year period to EUR 60 million as of the end of fiscal 2006 (2005: EUR 107 million). In addition to the effects described above, this development was in particular due to a comparatively higher increase in accounts receivable and other assets in combination with a lower increase in liabilities than in the prior-year period.

In fiscal 2006, a total of EUR 70 million was paid out in dividends for fiscal 2005 (2005: EUR 59 million).

Free cash flow for fiscal 2006, at EUR -10 million, was therefore lower than in the prior year (2005: EUR 48 million).

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The HUGO BOSS Group uses off-balance sheet financial instruments to a very limited extent only, primarily in connection with leasing the new administrative building in Metzingen, Germany.

CAPITAL EXPENDITURE

The HUGO BOSS Group significantly increased investments in property, plant, and equipment and intangible assets to a total of EUR 98 million (2005: EUR 77 million). This represents a 29% increase in the volume of capital expenditure compared to 2005.

As in the previous year, capital expenditure in 2006 primarily focused on expansion and modernization of the international sales network with total expenses of EUR 48 million (2005: EUR 35 million). EUR 34 million of this was incurred for expansion of the Group's network of directly operated stores (2005: EUR 20 million). The Group emphasized the shop-in-shop concept with the opening of 46 new stores. At the close of fiscal 2006, the HUGO BOSS Group had a total of 210 directly operated stores. Another approximately EUR 12 million was invested in opening new showrooms and expanding existing showrooms and outlet space. In addition, approximately EUR 2 million was spent on renovating existing stores and for a number of minor projects.

The Group's growth made it necessary to further expand in-house manufacturing capacities. Investments focused on purchasing new production technologies and expanding or establishing new manufacturing facilities and warehouses. A total of approximately EUR 11 million was invested in these and other projects.

In fiscal 2006, approximately EUR 18 million was invested in the strategic project entitled "Columbus" and other IT projects.

The "Columbus" project assists in systematically identifying synergy potential and optimizing processes. The standard software solution SAP AFS is being implemented in the HUGO BOSS Group as part of this program initiated in fiscal 2003. In addition, the "Columbus" project was supplemented by the introduction of SAP Retail in the Group's directly operated stores in Germany and Switzerland.

An additional approximately EUR 19 million was invested in fiscal 2006 for constructing new administrative buildings and replacing equipment. Another EUR 2 million was spent on a variety of additional projects of lesser importance.

RESEARCH AND DEVELOPMENT

Research and development at the HUGO BOSS Group mainly reflects the creation of fashion collections. Development of innovative and appealing collections for the global market is one of the primary drivers of value and growth in the HUGO BOSS Group.

Research and development expenditures increased by 28% to EUR 38 million during the year under review (2005: EUR 30 million), particularly due to creation of the collections for the BOSS Orange Womenswear line. The R&D ratio, i.e., R & D expense as a proportion of sales, amounted to 3% (2005: 2%).

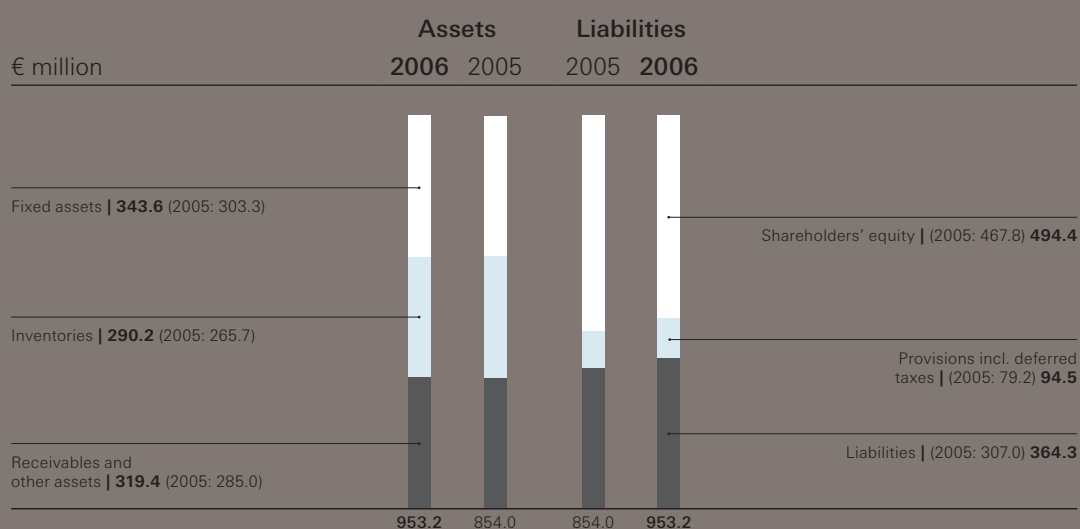
ANALYSIS OF FINANCIAL REQUIREMENTS

| in € million | 2006 | 2005 | Change in % |
|---|--------------|--------------|-------------|
| Trade receivables, other assets ¹ | 215.0 | 196.8 | 9 |
| Inventories | 290.2 | 265.7 | 9 |
| Trade payables and other liabilities ¹ | (174.1) | (146.6) | (19) |
| Current provisions | (32.4) | (36.4) | 11 |
| Net current assets² | 298.7 | 279.5 | 7 |
| Fixed assets | 343.6 | 303.3 | 13 |
| Other non-current assets | 28.9 | 26.0 | 11 |
| Non-current provisions | (54.2) | (31.0) | (75) |
| Other non-current liabilities | (33.3) | (22.3) | (49) |
| Net deferred taxes | 27.7 | 19.4 | 43 |
| Medium- and long-term net assets | 312.7 | 295.4 | 6 |
| Net assets | 611.4 | 574.9 | 6 |
| Balance of cash at banks and due to banks | 117.0 | 107.1 | 9 |
| Shareholders' equity | 494.4 | 467.8 | 6 |
| Net asset coverage | 611.4 | 574.9 | 6 |

¹ Payable within one year.

² Net working capital.

BALANCE SHEET STRUCTURE



NET ASSETS

Equity of the HUGO BOSS Group amounted to EUR 494 million as of December 31, 2006 (December 31, 2005: EUR 468 million). The equity-to-assets ratio thus equaled 52% (December 31, 2005: 55%).

Net debt amounted to EUR 117 million as of December 31, 2006. This figure was EUR 10 million higher than in the prior year due to developments in free cash flow described above.

KEY FINANCIAL INDICATORS

| | | 2006 | 2005 |
|-----------------------------------|---|-------|-------|
| Equity-to-assets ratio in % | = $\frac{\text{Shareholders' equity}}{\text{Total assets}}$ | 51.9 | 54.8 |
| Debt-to-equity ratio in % | = $\frac{\text{Liabilities}}{\text{Equity}}$ | 92.8 | 82.5 |
| Net-debt-to-EBITDA ratio in % | = $\frac{\text{Net debt}}{\text{EBITDA}}$ | 50.1 | 52.4 |
| Interest cover | = $\frac{\text{EBIT}}{\text{Net interest expense}}$ | 37.7 | 34.3 |
| Return on equity in % | = $\frac{\text{Net income}}{\text{Ø Shareholders' equity}}$ | 26.2 | 23.8 |
| Capital expenditure (EUR million) | | 98.5 | 76.6 |
| Total assets (EUR million) | | 953.2 | 854.0 |

NET CURRENT ASSETS

Net current assets (net working capital) are comprised of current assets not including cash and cash equivalents less current liabilities as stated in the balance sheet. Due to improved accounts receivables management and more efficient inventory management, the increase in net current assets of 7% was less than the increase in sales of 14% in fiscal 2006.

Short-term receivables and other current assets rose from EUR 197 million as of December 31, 2005 to EUR 215 million at the end of fiscal 2006. In addition to the 5% increase in trade receivables, the rise in current assets was due to higher tax claims and increased reinsurance cover taken out for pension obligations.

Despite the significant increase in sales via directly operated stores in comparison with fiscal 2005, the rise in inventories by 9% to EUR 290 million in 2006 (December 31, 2005: EUR 266 million) was

less than the general increase in business activities due to further improvements in inventory and logistics processes.

Current liabilities not including provisions and financial liabilities increased to EUR 174 million as of December 31, 2006 (December 31, 2005: EUR 147 million).

Current provisions declined by 11% to EUR 32 million in fiscal 2006 (2005: EUR 36 million). For an itemized listing, please refer to page 137 of the notes to the consolidated financial statements.

NON-CURRENT ASSETS, NET

Non-current assets, net are made up of non-current assets adjusted for non-current liabilities not including financial liabilities as stated in the balance sheet.

The reasons for the changes in deferred taxes are presented on page 127 of the notes to the consolidated financial statements.

Property, plant and equipment and intangible assets increased by 13% to EUR 344 million (December 31, 2005: EUR 303 million) due to the increase in directly operated stores and the additional expansion of in-house production capacity. Investments in IT systems (SAP AFS and SAP Retail) also increased this item.

Non-current provisions, which includes pension provisions and other provisions, rose by 75% to EUR 54 million as of December 31, 2006 (December 31, 2005: EUR 31 million), primarily due to allocations to provisions for employee profit sharing plans and an increase in pension provisions.

NON-FINANCIAL PERFORMANCE INDICATORS

In addition to an efficient and well-managed organization, the following non-financial performance indicators have a decisive impact on the sustained success of the HUGO BOSS Group:

Employee qualifications: At HUGO BOSS, employees are regarded as a significant part of our Company's assets. The ability of our employees to identify with the Company and make a commitment to its objectives, along with their dedication, are a crucial part of the Company's success. HUGO BOSS places equal importance on modern financial incentive models that reward individual performance and on compensating the overall performance of our staff. Employee potential is

also fostered by a high degree of personal responsibility. Thanks to our highly qualified staff, most vacant management positions in Germany and abroad can be filled by HUGO BOSS Group employees, ensuring that our expertise is expanded while remaining within the Company.

Product quality: HUGO BOSS collections make an unmistakable and innovative fashion statement. We take the latest trends in international fashion and express them in typical HUGO BOSS style.

The HUGO BOSS brands offer outstanding value. The quality and comfort of our clothing satisfies the most exacting demands.

Market Knowledge: Close contact with our customers and a well-founded knowledge of international markets are increasingly crucial factors in the sustained success of the HUGO BOSS Group.

To this end, HUGO BOSS maintains a network of 31 showrooms in 19 key global fashion markets – one of the most internationally comprehensive distribution systems in the high-end fashion market.

Efficiency of business processes: HUGO BOSS extends its “best-in-class” standards to production and logistics. In order to meet these high standards, state-of-the-art methods are implemented in production and logistics as part of an ongoing optimization process. HUGO BOSS also utilizes effective management methods from other sectors, such as the automotive industry.

This approach allows HUGO BOSS to guarantee high and consistent quality levels with a competitive cost structure.

Top-notch delivery rates: The delivery rate measures the percentage of pre-ordered goods delivered to HUGO BOSS customers complete and on time. The delivery rate is thus a key indicator of operational success. In fiscal 2006, HUGO BOSS achieved one of the highest ratios in the fashion industry at well over 95%.

MISCELLANEOUS

AUTHORIZED CAPITAL, AUTHORIZATION TO PURCHASE OWN SHARES

On May 18, 2004, the Annual Shareholders' Meeting of HUGO BOSS AG authorized the Managing Board, subject to the consent of the Supervisory Board, to increase the Company's nominal authorized capital by May 18, 2009 by a total of no more than EUR 35,200,000 by issuing one or several times new bearer shares and/or bearer preferential shares without voting rights, which correspond to the bearer preferential shares without voting rights already issued, in return for cash and/or deposits in kind.

On May 4, 2006, the Annual Shareholders' Meeting authorized the Managing Board to purchase bearer ordinary and/or non-voting bearer preferential shares of HUGO BOSS AG until November 3, 2007 up to an overall maximum of 10% of its current capital. The authorization to purchase shares may be exercised by HUGO BOSS AG for the entire amount at once or in part amounts on one or several occasions. The shares may be purchased via the stock market by means of a public purchase offer to holders of the respective category of shares.

Any Company shares repurchased in accordance with this authorization may be resold via the stock market or by means of an offer to all shareholders. They may also be used as counter-performance for a possible acquisition of enterprises or shareholdings in enterprises, for a sale at a price that is not substantially lower than the stock market price and for the listing of the share on foreign stock markets.

SHAREHOLDER STRUCTURE

In 2006, no major changes occurred to the Company's shareholder structure in comparison with fiscal 2005. As in the previous year, the Valentino Fashion Group S. p. A. holds 50.9% (35,854,128 shares) of the total share capital of HUGO BOSS AG. The Italian Valentino Group holds 78.8% of the common stock (28,242,128 shares) and 22.0% of the preferred stock (7,612,000 shares). This translates into a free float of 21.2% for common shares and 78.0% for preferred shares. Apart from the Valentino Group, no other shareholders have reported holdings equivalent to more than 3% of the share capital of HUGO BOSS AG. Other notable blocks of shares are held by major institutional investors in North America, Germany, Great Britain and Switzerland.

DISCLOSURE IN ACCORDANCE WITH SECTION 315 OF THE GERMAN COMMERCIAL CODE (HGB)

No disclosures are required in accordance with Section 315 Paragraph 4 No. 8 and No. 9 of the German Commercial Code (HGB).

IMPLEMENTATION OF THE STRATEGIC "COLUMBUS" PROJECT

Implementation of the strategic project known as "Columbus" continued to be successful in 2006. The "Columbus" project entails implementing SAP AFS standard software solution for the purpose of controlling the entire value creation chain of the HUGO BOSS Group. After being introduced without incident in the HUGO division, the system was gradually extended in 2006 to encompass the BOSS Orange and BOSS Black Womenswear divisions. The project will be completed in 2007 with the integration of BOSS Black Menswear. By introducing this standard software solution with the resulting optimization of business processes, HUGO BOSS is fulfilling the high standards of the international fashion industry.

In addition, SAP Retail was introduced in the German and Swiss markets as part of the "Columbus" project in response to the increasing significance of the Group's directly operated stores.

FOCUS ON CORE COMPETENCIES: BALDESSARINI

HUGO BOSS is one of the leading fashion companies in the world with sales of EUR 1.5 billion. The portfolio of HUGO BOSS previously encompassed the brands of BOSS, HUGO, and BALDESSARINI, with the core BOSS brand and the trendy HUGO brand accounting for more than 99% of the Group's business. The successful market launch of BOSS Selection has enabled HUGO BOSS to cover the high-end segment in its brand portfolio. For this reason, the textile activities of the BALDESSARINI brand were sold as of September 1, 2006. The Group continues to sell the BALDESSARINI fragrances via a licensing agreement.

SUSTAINED VALUE CREATION

HUGO BOSS is one of the leading international fashion companies in the high-end fashion market. As an innovative, creative company, HUGO BOSS aspires to be on the leading edge with respect to products and business processes as well as knowledge of markets and customers. The goal of HUGO BOSS is to increase enterprise value and secure long-term success through entrepreneurial action.

At HUGO BOSS, value-oriented corporate policy involves assuming responsibility for the environment and the Company's employees along with good corporate governance. Achieving sustainability is therefore an ongoing process at the HUGO BOSS Group, the success of which is evident from the continued positive development of the Group.

ENVIRONMENTAL PROTECTION

At HUGO BOSS, protection of the environment and the Earth's natural resources is regarded as part of the Company's corporate responsibility. In line with this thinking, close attention to environmental aspects was paid in designing the new office building in Metzingen. For example, thanks to the modern facade construction with double-walled insulation, it has been possible to significantly reduce energy consumption for heating and ventilation.

In addition to energy-saving measures, environmental protection in 2006 focused on efficient use of resources. This is why this annual report was printed on paper from sustainably harvested resources, as in the previous year.

Moreover, manufacturers for the HUGO BOSS Group agree to comply with local environmental protection laws and contractually guarantee that they will refrain from using certain additives defined by law in production.

PROCUREMENT

Global procurement of non-textile products, capital goods, and services was combined in fiscal 2006 into an efficient, Group-wide sourcing unit at the Metzingen location.

In the next step, the focus was increased on optimizing the actual procurement processes. Suppliers were subjected to ongoing reviews, and supplier quality was compared with that of competitors with the help of benchmark analyses. In order to assess the performance of HUGO BOSS suppliers, an online tool was introduced Group-wide as a crucial element in supplier management. This system enables supplier-related data to be collected and evaluated with ease. Therefore, action to optimize supplier performance can be taken quickly where necessary. Supplier management is undertaken centrally via strategic purchasing.

ORDERS

The business system of HUGO BOSS has changed considerably in recent years. While the business used to be dominated by two pre-order seasons (spring/summer and fall/winter) with orders being placed accordingly early, the business has now become increasingly complex.

Four pre-order seasons, theme-oriented delivery windows, a high proportion of stock business, and a rising focus on the Group's own retail business have significantly reduced the relevance of reporting new orders twice a year as in the past.

HUGO BOSS therefore no longer publishes pre-order figures.

HUMAN RESOURCES

| Employees (full-time equivalents) | 2006 | 2005 | Change in % |
|-----------------------------------|--------------|--------------|-------------|
| by region | | | |
| Germany | 2,104 | 1,911 | 10 |
| Other European countries | 4,795 | 4,262 | 13 |
| Americas | 1,167 | 1,063 | 10 |
| Asia/other regions | 375 | 348 | 8 |
| Total | 8,441 | 7,584 | 11 |
| by function | | | |
| Production/Logistics | 5,334 | 4,992 | 7 |
| Sales/Creation/Marketing | 2,441 | 2,025 | 21 |
| Administration | 666 | 567 | 17 |
| Total | 8,441 | 7,584 | 11 |

KEY PERSONNEL FIGURES

| | 2006 | 2005 | Change in % |
|--|-------|-------|-------------|
| Personnel expenses (total EUR mill.) | 277.8 | 238.2 | 17 |
| Personnel expenses per employee (EUR thous.) | 34.9 | 32.9 | 6 |

HUMAN RESOURCES

EMPLOYEE NUMBERS INCREASE AS HUGO BOSS CONTINUES TO GROW

At the close of fiscal 2006, the HUGO BOSS Group employed 8,441 persons worldwide (December 31, 2005: 7,584). The main reason for the rise in the number of employees during 2006 was the continued expansion of the Group's own retail business (DOS). A total of 168 employees were hired in these divisions around the world. In addition, generally higher business volumes made it necessary to recruit more employees.

The HUGO BOSS Group created a total of 207 new, fulltime jobs in Germany during fiscal 2006.

EXPANSION OF STOCK APPRECIATION RIGHTS (SAR) PROGRAM

The Managing Board of HUGO BOSS AG resolved in November 2006 to extend the 2001 SAR program by introducing tranche 7 to the executive level of divisional heads at the Group's headquarters and the worldwide subsidiaries. Thus starting in 2007, an additional 257 executives are taking part in the SAR program and participating in the performance of HUGO BOSS AG shares. The expansion of the SAR program to include these executives has increased the ties to the Company of key functions that are crucial to the success of HUGO BOSS. The management compensation structure is therefore now geared more heavily toward the long-term success of the Company than it was in the past.

RECRUITMENT PROCESSES WITHIN THE GROUP

In March 2005, applicant management and internal personnel acquisition processes were optimized and realigned through the introduction of the SAP e-recruiting module. The positive experience and findings gathered at Group headquarters in Metzingen are now being gradually conveyed to the subsidiaries. In fiscal 2006, the e-recruiting module was put into operation at the subsidiaries in Hong Kong, Great Britain, and Turkey.

The subsidiaries in Turkey and Great Britain also succeeded in 2006 in implementing the "Global SAP HR module," in which personnel data of employees of the HUGO BOSS Group is stored and administered. The subsidiaries in Switzerland and Spain plan to implement the module at the start of 2007, followed by the subsidiaries in the U. S. in the second half of the year.

Introduction of the HR module on a global basis will ensure that uniform recruiting processes are implemented in all corporate divisions in Germany and abroad in the future along with quicker availability of key corporate management information.

PERSONNEL MARKETING ACTIVITIES INTENSIFIED

In 2006, HUGO BOSS AG again endeavored to fulfill its social responsibility by participating in a variety of marketing activities at international colleges and universities, presenting itself as a modern, attractive employer. In addition, HUGO BOSS focused on partnerships with colleges and universities in order to secure the Group's medium to long-term needs for graduates from institutions of higher education.

ENTRY PROGRAM FOR UNIVERSITY GRADUATES EXTENDED

In order to address the increased need for qualified university graduates and meet new challenges in specialist areas, HUGO BOSS AG has expanded its traineeship program to include the two additional focal points of procurement and internal controlling. Thorough specialist orientation in the departments at Company headquarters as well as short stays at subsidiaries help to provide Company-specific knowledge and skills for future positions at HUGO BOSS.

TRAINING PROGRAMS AT HUGO BOSS AG

In fiscal 2006, 15 apprentices successfully completed their training programs at HUGO BOSS AG. The Company had a total of 60 apprentices as of December 31, 2006. Numerous activities such as internal seminars and external courses ensure that our future employees will be highly qualified.

HUGO BOSS likewise increased the number of internships in 2006 to a total of 140. Students gain comprehensive insight into the business processes of the HUGO BOSS Group by participating in the daily business routine and becoming involved in projects. Approximately 20% of the interns/future graduates were offered permanent employment contracts based on their qualifications and specialist orientation in their studies.

TRAINING PROGRAMS AT HUGO BOSS AG

- **Industrial clerk, retail clerk, inventory administration specialist, electronics engineer for operational technology, fashion seamstress/tailor**
 - **Vocational Academy for Industry, Business IT and Tax Accounting**
-

SCOPE OF CONSOLIDATION

As of the end of the reporting period (January 1 to December 31, 2006), the number of consolidated companies was unchanged at 52 in comparison with December 31, 2005.

Due to the sale of the textile activities of the BALDESSARINI brand, Baldessarini GmbH & Co. KG and Baldessarini Design und Verwaltungs-GmbH are no longer included in the consolidated accounts.

There were no other changes to the group of consolidated companies that had a material impact on the Group's financial position, financial performance, and cash flow. For further information concerning changes in the scope of consolidation please refer to page 110 in the notes to the consolidated financial statements.

REMUNERATION SYSTEM FOR MANAGING AND SUPERVISORY BOARD MEMBERS

Information on remuneration paid to Managing and Supervisory Board members of HUGO BOSS AG can be found in note [34] of the notes to the consolidated financial statements.

SUMMARY OF FINANCIAL POSITION AND PERFORMANCE

In summary, the Group's net assets and results of operations indicate that HUGO BOSS was in a sound financial position at the time this Management Report was prepared.

EVENTS AFTER THE BALANCE SHEET DATE

As of March 1, 2007, no material operational changes, structural modifications, or business events had occurred in the HUGO BOSS Group that might serve to alter any disclosures contained in the 2006 financial statements.

RISK REPORT

RISK EARLY WARNING SYSTEM

A key component of successful corporate management is a risk management approach that identifies, analyzes, controls, and monitors all significant risks in a company's environment. HUGO BOSS has implemented a risk early warning system that incorporates planning, control and information systems. These systems also permit existing opportunities to be identified and exploited.

The risk manual and risk catalogue are the foundation of risk management.

The risk catalogue lists all risks systematically by department and corporate division, specifying instruments and indicators that can be used to identify any irregularities early on. Should a risk materialize, reporting chains are triggered and suitable, pre-defined countermeasures are initiated to guarantee a rapid response.

All risks are reviewed at least once annually to ensure that they reflect current reality. If necessary, individual risk entries are revised or supplemented.

All risks are quantified on a regular basis, taking into account damage levels and the probability of occurrence.

Both the parent company and the subsidiaries apply the same type of risk recording.

The risk manual describes the HUGO BOSS risk early warning system in detail and contains all principles applicable to risk identification and assessment.

Tests of risk early warning system functionality are performed by internal audit on a regular basis.

The HUGO BOSS risk early warning system fulfills all statutory risk management requirements in full. The HUGO BOSS Group is thus in a position to recognize risks early on and to respond quickly and appropriately.

The independent auditor examined the risk early warning system during the audit of the annual financial statements and confirmed that the Managing Board has implemented the requirements set forth in Section 91 Paragraph 2 of the German Stock Corporation Act in a suitable manner, particularly the requirement to establish a risk monitoring system. Any risks with the potential of jeopardizing the continued existence of the company will be detected by the monitoring system at an early stage.

The key risks of the HUGO BOSS Group are described below:

EXTERNAL RISKS

Potential upheavals in the political, legal and social environment represent a fundamental risk for all companies. A theoretical danger also exists to the financial position and financial performance of the Company in the shape of possible terrorist acts or natural disasters. Practically speaking, this could be relevant to the production sites in Turkey in the event of earthquakes, for example. These risks, however, are covered to the greatest extent possible by insurance.

INTERNAL RISKS

RISKS RELATED TO INVENTORIES AND RECEIVABLES

Since inventories and receivables form a core component of the monthly reporting system, significant deviations can be identified quickly and appropriate actions implemented without delay. Capacity shortages related to inventory structure can be effectively avoided in this manner.

Inventory management is subject to continuous optimization, particularly with regard to the procurement chain, the expansion of stock business, and electronic data interchange (EDI).

Group-wide credit insurance limits the bad debt risk to the amount of the deductible. Moreover, all subsidiaries possess their own credit control measures based on uniform Group rules. These measures revolve around granting and adhering to customer credit limits, monitoring the aging of receivables, and managing doubtful accounts. Internal audit regularly reviews adherence to Group guidelines.

MARKET RISKS AND OPPORTUNITIES

As a fashion and lifestyle company, every new season confronts HUGO BOSS with the risk that portions of the new collections may be received by the market less positively than anticipated.

HUGO BOSS counters this risk by means of centralized creation of fashion collections and a globally consistent brand image. Constant market observation and regular attendance at international fashion fairs ensures that trends are identified early on to serve as a basis for the collections.

Risk is also mitigated by the multi-season concept along with the broad range of collections encompassing all HUGO BOSS brands and a market presence in over 100 countries with some 5,700 points of sale.

The sustained upward trend, particularly in the areas of BOSS Womenswear as well as shoes and leather accessories, still leaves room for major growth opportunities.

Available growth opportunities in the areas of eyewear and watches will continue to be taken advantage of in 2007 via the licensees that the Group has been cooperating with since 2006, Safilo S.p.A. for eyewear and the Movado Group, Inc. for watches. These long-term strategic partnerships serve to lastingly establish the HUGO BOSS brands and to assure steady growth in the product groups of eyewear and watches.

RETAIL ACTIVITIES AND INVESTMENT RISK

One of HUGO BOSS' main strategic objectives is to continue expanding the Group's retail activities, i. e., sales via directly operated stores.

This strategy not only leads to a potentially higher gross margin percentage based on increased vertical diversification, but also permits closer contact with end customers and thus a more targeted and active presentation of the product assortment.

These expanded retail activities, however, involve risks associated with considerable capital expenditure, high fixed costs, and long-term rental agreements. The possibility that stores could be less successful than expected entails the threat of special write-offs and even closures. The investment risk is minimized, for example, by implementing globally uniform shop fitting concepts for the points of sale, which can generally continue to be used at other locations in the event of a business closure.

International retail activities are monitored via a retail controlling division using customized planning, control, and information systems to support the management in decision making. A comprehensive site selection process, intensive cross-divisional planning, and a multi-stage approval process all precede the opening of new stores.

TRADEMARK PROTECTION

For a brand company such as HUGO BOSS, ongoing successful development is inextricably linked to brand image. Brand identity protection therefore deserves particular attention, given the sustained investment in brands. This occurs primarily by securing and defending industrial property rights in the various product groups.

Trademark violations, gray market activities, and counterfeiting could not only lead to short-term sales losses, but may cause long-term damage to brand image. These activities are, therefore, closely monitored around the globe. Customers and sales partners work closely together with the Metzingen headquarters. Any necessary legal action is taken.

LEGAL RISKS AND LIABILITY RISKS

In a globally operating enterprise such as HUGO BOSS, legal disputes are inevitable.

In order to avert legal risks, all significant legal transactions are reviewed and approved by the central legal department in Metzingen. The central legal department works together with the subsidiaries and local attorneys in this process.

Liability risks and claims are minimized by insurance policies in effect throughout the organization.

Adequate provisions are created for court and legal advice costs.

INSURANCE

Insurance constitutes an essential aspect of risk management, providing centralized coverage for risks such as operational breakdowns, bad debts, loss of goods and buildings, and damage claims.

PERSONNEL RISKS

HUGO BOSS is distinguished by a corporate culture based on trust with a flat hierarchical structure and a focus on independent thought and action at all levels. The Company also strives to motivate employees and fosters long-term company loyalty by offering comprehensive continuing education programs and financial participation in the Company's success.

Access to confidential information, which goes hand-in-hand with this type of corporate culture, harbors the risk of abuse. HUGO BOSS has therefore included appropriate clauses in the employment contracts of its staff. Individuals who are regarded as insiders as defined in securities legislation are listed in an insider directory and are required to comply with the pertinent regulations.

MANAGEMENT RISKS

HUGO BOSS is active in all of the major fashion markets in the world. Business is usually conducted via subsidiaries in which the managing directors are vested with extensive authority to make decisions at their own discretion, enabling them to respond promptly and autonomously to local market conditions. The structure of the HUGO BOSS Group ensures that strategic business units are managed by entrepreneurs within the organization.

All of these senior employees are obligated to uphold principles of responsible leadership. In addition, the chains of authority at individual companies are reviewed and updated on a regular basis.

Nevertheless, despite extensive, multi-level review and control mechanisms, the risk of abuse cannot be completely excluded given the high level of entrepreneurial autonomy.

PURCHASING, PRODUCTION, LOGISTICS AND SALES

Centralization is an important concept at HUGO BOSS for avoiding risks in the production and supply divisions as well as in the process of creating fashion collections. The central divisions in Metzingen coordinate manufacturers' capacity utilization and deliveries of raw materials to their premises. Suppliers must not only meet high demands with regard to quality and stock availability; they must also adhere to the environmental and social standards of HUGO BOSS.

Products are subject to uniform Group quality control checks at all stages of production. Traveling quality consultants regularly visit production sites and review compliance with the strict design and production specifications of HUGO BOSS. All finished goods are subject to final quality control in Metzingen, where global dispatch is also coordinated. This centralized management ensures that HUGO BOSS' high quality standards are consistently adhered to and customers receive their deliveries on schedule.

Care is taken throughout the entire value creation chain that no supplier dependencies arise. HUGO BOSS avoids excessive concentration on individual suppliers and procurement markets and secures an appropriate amount of in-house production. Capacities of the Group's own production sites have been expanded as a consequence of the successful business trend in recent years. This reduces risks based on changes in customs duties, trade restrictions, or political instabilities.

In the sales area, the focus is on a balanced customer structure. Furthermore, the Group's orientation towards doing business with independent retailers is increasingly being supplemented by the

Group's own retail activities. A detailed sales monitoring system facilitates continuous and prompt control of order levels, sales revenues, delivery rates and other key figures.

IT AND COMMUNICATIONS RISKS

The implementation of SAP AFS standard software and the departure from the longtime used and accustomed systems developed in-house is among the most challenging projects in HUGO BOSS' history. The project risks were offset from the start by active management and by calling in external consultants. All Company divisions have been integrated into the project. The Company has guaranteed sufficient human and financial resources in order to minimize project risks. As a first step, the software solution was successfully implemented in fiscal 2005 in the HUGO division. The next step was to integrate the BOSS Orange and BOSS Black Womenswear divisions, which occurred in 2006. BOSS Black Menswear will be integrated into the system in the course of 2007, taking advantage of the experience already gained.

IT security and system failure risks are minimized by means of back-up systems and regular maintenance.

FUNDING AND INTEREST RATE RISKS

The HUGO BOSS Group is financed primarily by equity and therefore only minimally affected by interest rate developments. Nevertheless, long-term loans are additionally hedged with interest rate derivatives where necessary. To rule out liquidity risk, the Group has credit lines at its disposal that significantly exceed the maximum debt capital requirements for the fiscal year.

FOREIGN CURRENCY RISKS

As an internationally operating company, HUGO BOSS is active in a variety of currency zones and is therefore subject to exchange rate risks. International business activities lead to payment flows in various currencies. Between 50 and 100% of anticipated total net cash flows are hedged for periods of up to 18 months.

Underlying transactions and currency hedges are recorded in a treasury management system and can be measured at any time. HUGO BOSS only enters into standard types of currency forward and currency option transactions with banks having impeccable credit ratings. Foreign exchange management of balance sheet positions is limited to internal Group dividend payments and internal loans to subsidiaries.

Exchange rate risks exist mainly for the delivery of goods to the United States, Great Britain, Canada, Japan and Australia. The U.S. dollar risk is virtually neutralized due to the Group's own production site in the U.S. and the purchase and manufacture of goods from Asia in U.S. dollars.

SENSITIVE CURRENCIES 2007

| in € million | Cash inflow | Cash outflow | Net currency exposure | Negative impact of euro appreciation of 10% ¹ |
|--------------|--------------|----------------|-----------------------|--|
| USD | 77.4 | (81.3) | (3.9) | (0.05) |
| GBP | 64.6 | (2.2) | 62.4 | (0.31) |
| CHF | 18.4 | (27.4) | (9.0) | (0.90) |
| CAD | 21.4 | (0.2) | 21.2 | 0.96 |
| Others | 17.3 | (18.7) | (1.4) | (0.44) |
| Total | 199.1 | (129.8) | 69.3 | (0.74) |

¹ Pre-tax cash effect, taking the currency hedge into account.

OVERALL RISK

Planning risks naturally arise in connection with sales forecasts, inventory impairment estimates, bad debts, and to a small degree exchange rates. These uncertainties pertain to the amount of sales and earnings as well as the balance sheet structure.

No risks with the potential of jeopardizing the continued existence of the company are discernible at present.

FORECAST

FOR THE YEARS 2007 AND 2008

SALES TRENDS

| in € million | 2007/2008 | 2006 |
|--------------------------|-----------|----------------|
| Germany | ↗ | 346.9 |
| Other European countries | ↗ | 681.9 |
| Americas | ↗ | 273.6 |
| Asia/other regions | ↗ | 150.1 |
| Royalties | ↗ | 43.0 |
| Total | ↗ | 1,495.5 |

EARNINGS TRENDS

| in € million | 2007/2008 | 2006 |
|--------------------------|-----------|--------------|
| Sales | ↗ | 1,495.5 |
| Gross margin | ↗ | 854.5 |
| in % of sales | ↗ | 57.1 |
| EBIT | ↗ | 184.4 |
| Earnings before taxes | ↗ | 179.9 |
| Net income | | 128.7 |
| Earnings per share (EUR) | | |
| Common share | ↗ | 1.84 |
| Preferred share | ↗ | 1.86 |

OTHER DEVELOPMENTS

| | 2007/2008 | 2006 |
|---|-----------|-------|
| Number of employees (Full-time equivalents) | ↗ | 8,441 |
| Net current assets (EUR million) | ↗ | 298.7 |
| Capital expenditure (EUR million) | → | 98.5 |

CONTINUED ECONOMIC GROWTH IN 2007 AND 2008

According to estimates by the "Organization for Economic Cooperation and Development" (OECD) and the "International Monetary Fund" (IMF), the global economy is expected to continue expanding in 2007. Global economic output is forecast to increase by 4.9%, only slightly less than last year's figure of 5.1%. The U.S. economy is predicted to grow by 2.9% in 2007 according to the IMF. This represents a slowdown of expansion in comparison with 2006. Growth of 2.0% is projected for the euro zone economies. For Germany, economists at the "Institut für Weltwirtschaft" are predicting a continuation of the economic trend with growth of 2.1% in the gross domestic product and a concurrent drop in the unemployment rate from 8.0% to 7.7%.

For Japan, the OECD anticipates growth of 2.1% in the gross domestic product. By contrast, major growth impetus is expected to continue coming from the rapidly developing emerging markets of East and Southeast Asia as well as Eastern Europe. German economic research institutes predicted growth of 6.3% for emerging economies in their fall surveys. These surveys indicated the People's Republic of China as having the strongest performance once again with economic growth of 10.0%. The Russian economy is forecast to expand by 6.0% on the basis of high commodities prices.

These upward trends are expected to continue for the most part in 2008 according to OECD estimates. The OECD's latest survey of its 30 industrialized member nations foresees total growth in economic output of 2.7%. The U.S., for instance, is expected to see growth of 2.7%, the euro zone 2.3%, and Japan 2.0%.

Experts state that inflation and interest rates could jeopardize this forecasted growth, as could extremely negative developments on capital and real estate markets.

The above scenarios assume that commodities prices will stabilize. In addition, geopolitical risks and terrorists attacks could have a strong negative impact on forecasted growth levels. As these risks cannot be quantified, they have not been taken into account in the projections.

SECTOR DEVELOPMENT

In fiscal 2007, the high-end segment of the world fashion market is predicted to show growth of approximately 3%.

The Asian markets are expected to experience above-average growth, particularly the People's Republic of China. Performance of the U. S. fashion market is expected to be similar to 2006 due to robust private consumption.

By contrast, the European markets are likely to see below-average growth once again.

SALES FORECAST

For the years 2007 and 2008, the Managing Board of HUGO BOSS AG anticipates that the business trend will continue moving upwards and new records will be set in sales.

BOSS Womenswear, and shoes and leather accessories are expected to demonstrate above-average growth compared to the other product groups.

Continued dynamic growth is anticipated for BOSS Orange Womenswear, the new womenswear line launched in fiscal 2006. The two womenswear lines, BOSS Orange and BOSS Black, are being introduced step-by-step to the U. S. market, which will advance internationalization of the womenswear business.

The product groups of fragrances, eyewear and watches, which are still licensed out, are also expected to develop positively in fiscal 2007 and 2008.

Due to a change in licensee for watches, a new collection was launched in spring of fiscal 2006 after the previous watch collection was discontinued. Royalty income for this product line is expected to perform well based on the fact that in 2007, income from the new watch collection will for the first time be recognized for the entire fiscal year.

HUGO BOSS has licensed eyewear to Safilo S.p.A., giving the Group a strong partner with global positioning in the luxury eyewear segment. The new eyewear collection has been available for sale since the second half of 2006 in HUGO BOSS stores as well as in high-end department stores and opticians' shops. Full-year royalties for the eyewear collection will be recognized for the first time in fiscal 2007.

Distribution via directly operated stores will expand due to the planned opening of approximately 50 new stores leading to higher sales.

The Managing Board anticipates the positive sales development to continue in fiscal 2007 as well as in 2008.

EARNINGS TRENDS

For fiscal 2007 and 2008, the HUGO BOSS AG Managing Board expects the Company to continue growing profitably. With respect to earnings before taxes, the Managing Board anticipates a rise in proportion with the rise in sales in 2007.

The following effects on income will play a predominant role in the earnings trend:

The gross margin percentage is expected to surpass the previous year's level based on the planned expansion of the DOS business along with ongoing optimization of global sourcing structures.

Moreover, the high growth rates of the BOSS Orange and BOSS Black Womenswear collections will enable increased economies of scale, which will lead to the earnings contribution for this segment outpacing earnings in the menswear segment.

Similar effects are anticipated from the expansion of the shoes and leather accessories business, which will also result in proportionately higher earnings contributions.

Earnings improvements in the growth areas mentioned will be offset by additional costs, in particular the continued expansion of the distribution via directly operated stores as well as further investments in expanding these growth areas.

ADDITIONAL JOBS

The HUGO BOSS Group will create additional jobs in Germany and abroad in the current fiscal year as well as in fiscal year 2008 based on the anticipation of positive business growth. Expansion of the general business volume in particular as well as additional new directly operated stores will necessitate these personnel increases.

CAPITAL EXPENDITURE

The HUGO BOSS Group anticipates capital expenditure volumes of approximately EUR 95 million per year in fiscal 2007 and 2008 (2006: EUR 98 million). In particular, investments will be made in increasing the number of directly operated stores as well as in key IT projects such as the continuation of the project to replace the Enterprise Resource Planning Systems (ERP) with SAP AFS standard software and the introduction of a retail management system.

DIVIDENDS

The HUGO BOSS Group pursues a yield-based dividend policy emphasizing dividend continuity. As in the past, HUGO BOSS will justify investor confidence by paying out high dividends.

FINANCIAL POSITION

The Group balance sheet is expected to continue to show a balanced proportion of shareholders' equity and borrowings in fiscal 2007 and 2008.

SUMMARY OF THE FORECAST

Based on the assumptions above, the management of the HUGO BOSS Group anticipates sales and earnings performance to continue to be positive in fiscal 2007 and 2008.

Nevertheless, actual results may differ materially from expectations of future developments should any of the uncertainties specified above or other uncertainties materialize or if the assumptions underlying the statements above prove to be incorrect.

REPORT ON RELATIONS WITH AFFILIATED COMPANIES

Since no controlling agreement has been signed with the majority shareholder, the Managing Board of HUGO BOSS AG is obligated to prepare a report on relations with affiliated companies in accordance with Section 312 of the German Stock Corporation Act (AktG). This report covers the relations between the Valentino Fashion Group S.p.A. and the companies belonging to the HUGO BOSS Group. The Managing Board declares in accordance with Section 312, Paragraph 3 of the German Stock Corporation Act that our Company received appropriate compensation for all legal transactions listed in the report on relations with affiliated companies in accordance with the conditions known at the time such transactions were undertaken. No measures subject to reporting requirements were undertaken in fiscal year 2006.

FURTHER INFORMATION

ON THE FINANCIAL STATEMENTS

DIVIDEND PROPOSAL

The Managing Board and Supervisory Board will propose to the Annual Shareholders' Meeting that EUR 82,802 thousand of the distributable profit be paid out as dividend as follows:

DIVIDEND PROPOSAL

| in € thousand | 2006 |
|---|---------------|
| 1. Distribution of | |
| a dividend of EUR 1.19 per common share | |
| 35,333,945 common shares | 42,047 |
| 2. Distribution of | |
| a dividend of EUR 1.20 per preferred shares | |
| 33,962,528 preferred shares | 40,755 |
| Total dividend payout | 82,802 |

The amounts proposed were calculated taking into account the 577,472 preferred and 526,055 common shares held by the HUGO BOSS Group as of the balance sheet date (December 31, 2006) and thus not entitled to dividends.

Insofar as HUGO BOSS AG holds own shares at the time that the Annual Shareholders' Meeting resolution is passed, such shares are not entitled to dividends in accordance with the German Securities Act. The amount that would apply to such shares not entitled to dividends will be carried forward.

Metzingen, March 1, 2007

HUGO BOSS AG
The Managing Board

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Parent Company HUGO BOSS AG, Metzingen, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the additional requirements of German commercial law pursuant to § 315a sec. 1 of the German Commercial Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition, we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

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

Our audit has not led to any reservations.

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

Stuttgart, March 1, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Meyer
Wirtschaftsprüfer



Hagg
Wirtschaftsprüfer

CONSOLIDATED
FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

OF HUGO BOSS GROUP

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006

| in € thousand | Notes no. | 2006 | 2005 |
|--|-----------|------------------|------------------|
| Sales | (1) | 1,495,525 | 1,309,417 |
| Other operating income | (2) | 69,482 | 51,395 |
| Changes in inventories and other own costs capitalized | | 22,018 | 19,500 |
| Cost of materials | (3) | (662,983) | (597,163) |
| Personnel expenses | (4) | (277,820) | (238,199) |
| Depreciation/amortization | (5) | (49,017) | (41,320) |
| Other operating expenses | (6) | (412,838) | (340,717) |
| Operating result | | 184,367 | 162,913 |
| Net interest expense | | (4,891) | (4,753) |
| Other financial items | | 420 | (922) |
| Financial result | (7) | (4,471) | (5,675) |
| Income before taxes | | 179,896 | 157,238 |
| Income taxes | (8) | (51,230) | (49,027) |
| Net income | | 128,666 | 108,211 |
| Profit attributable to shareholders of HUGO BOSS AG | | 128,703 | 108,259 |
| Minority interests | (9) | (37) | (48) |
| Net income | | 128,666 | 108,211 |
| Earnings per share (EUR) ¹ | (10) | | |
| common stock | | 1.84 | 1.54 |
| preferred stock | | 1.86 | 1.55 |
| Dividend per share (EUR) | (22) | | |
| common stock | | 1.19 | 1.00 |
| preferred stock | | 1.20 | 1.01 |

¹ Basic and diluted earnings per share.

CONSOLIDATED BALANCE SHEET

OF HUGO BOSS GROUP AS OF DECEMBER 31, 2006

ASSETS

| in € thousand | Notes no. | 2006 | 2005 |
|-------------------------------|-----------|----------------|----------------|
| Intangible assets | (11) | 84,620 | 74,364 |
| Property, plant and equipment | (12) | 258,966 | 228,965 |
| Deferred tax assets | (8) | 35,588 | 31,234 |
| Other non-current assets | (13) | 28,845 | 26,000 |
| Non-current assets | | 408,019 | 360,563 |
| Inventories | (14) | 290,256 | 265,677 |
| Trade receivables | (15) | 152,500 | 145,926 |
| Current tax receivables | | 2,964 | 2,116 |
| Cash and cash equivalents | (16) | 39,967 | 30,928 |
| Other current assets | (13) | 59,471 | 48,788 |
| Current assets | | 545,158 | 493,435 |
| Total assets | | 953,177 | 853,998 |

EQUITY AND LIABILITIES

| in € thousand | Notes no. | 2006 | 2005 |
|--|------------|----------------|----------------|
| Subscribed capital | (17) | 70,400 | 70,400 |
| Own shares | (18) | (31,114) | (12,097) |
| Capital reserve | (19) | 399 | 399 |
| Retained earnings | (20) | 347,308 | 309,277 |
| Accumulated other equity | (21) | (20,966) | (8,062) |
| Profit attributable to shareholders of HUGO BOSS AG | | 128,703 | 108,259 |
| Equity attributable to shareholders of HUGO BOSS AG | | 494,730 | 468,176 |
| Minority interests | (9) | (368) | (331) |
| Group equity | | 494,362 | 467,845 |
| Non-current provisions | (23), (24) | 54,196 | 31,017 |
| Non-current financial liabilities | (25) | 71,842 | 82,333 |
| Deferred tax liability | (8) | 7,910 | 11,819 |
| Other non-current liabilities | (26) | 33,290 | 22,312 |
| Non-current liabilities | | 167,238 | 147,481 |
| Current provisions | (23) | 32,374 | 36,405 |
| Current financial liabilities | (25) | 85,123 | 55,679 |
| Current tax payables | | 35,250 | 27,379 |
| Trade payables | (27) | 103,135 | 80,723 |
| Other current liabilities | (26) | 35,695 | 38,486 |
| Current liabilities | | 291,577 | 238,672 |
| Total equity and liabilities | | 953,177 | 853,998 |

STATEMENT OF CHANGES IN EQUITY

OF HUGO BOSS GROUP

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006

| | Sub- scribed Capital | Own Shares | Capital Reserve | Retained Earnings | |
|--------------------------------|----------------------------|-----------------|--------------------|-------------------|------------------------------|
| | | | | Legal Reserve | Other Revenue Reserves |
| in € thousand | | | | | |
| Notes no. | (17) | (18) | (19) | (20) | (20) |
| January 1, 2005 | 70,400 | (2,103) | 399 | 6,641 | 273,597 |
| Net income | | | | | |
| Allocated to retained earnings | | | | | 88,234 |
| Dividend payment | | | | | (59,195) |
| Share repurchase | | (9,994) | | | |
| Market valuation of hedges | | | | | |
| Currency translation effects | | | | | |
| December 31, 2005 | 70,400 | (12,097) | 399 | 6,641 | 302,636 |
| Net income | | | | | |
| Allocated to retained earnings | | | | | 108,259 |
| Dividend payment | | | | | (70,228) |
| Share repurchase | | (19,017) | | | |
| Market valuation of hedges | | | | | |
| Currency translation effects | | | | | |
| December 31, 2006 | 70,400 | (31,114) | 399 | 6,641 | 340,667 |

| | Accumulated Other Equity | | | | | |
|--|---|----------------------------------|--|--|-----------------------|-----------------|
| | Difference arising from currency translation | Market valuation of hedges | Profit attributable to share- holders of HUGO BOSS AG | Equity attributable to share- holders of HUGO BOSS AG | Minority Interests | Group Equity |
| | (21) | (21) | | | (9) | |
| | (22,748) | 1,497 | 88,234 | 415,917 | (283) | 415,634 |
| | | | 108,259 | 108,259 | (48) | 108,211 |
| | | | (88,234) | | | |
| | | | | (59,195) | | (59,195) |
| | | | | (9,994) | | (9,994) |
| | | (2,187) | | (2,187) | | (2,187) |
| | 15,376 | | | 15,376 | | 15,376 |
| | (7,372) | (690) | 108,259 | 468,176 | (331) | 467,845 |
| | | | 128,703 | 128,703 | (37) | 128,666 |
| | | | (108,259) | | | |
| | | | | (70,228) | | (70,228) |
| | | | | (19,017) | | (19,017) |
| | | 571 | | 571 | | 571 |
| | (13,475) | | | (13,475) | | (13,475) |
| | (20,847) | (119) | 128,703 | 494,730 | (368) | 494,362 |

CONSOLIDATED STATEMENT OF CASH FLOWS

OF HUGO BOSS GROUP

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006

| in € thousand | Notes no. | 2006 | 2005 |
|--|-----------|-----------------|------------------|
| Net income | | 128,666 | 108,211 |
| Depreciation/amortization | | 49,017 | 41,320 |
| Change in provisions for pensions | | 7,825 | 4,609 |
| Cash flow | | 185,508 | 154,140 |
| Change in inventories | | (35,146) | (7,949) |
| Change in receivables and other assets | | (32,952) | (8,912) |
| Change in trade payables and other liabilities | | 40,952 | 34,787 |
| Result from disposal of non-current assets | | 1,508 | (122) |
| Change in other provisions | | 12,045 | 11,182 |
| Cash flow from operating activities | | 171,915 | 183,126 |
| Investments in PPE and intangible assets | | (98,473) | (76,633) |
| Payments for changes in the scope of consolidation | | 723 | 0 |
| Cash receipts from sales of PPE and intangible assets | | 1,905 | 8,512 |
| Cash flow from investing activities | | (95,845) | (68,121) |
| Dividend from preceding year | | (70,228) | (59,195) |
| Share repurchase | | (19,017) | (9,994) |
| Change in current financial liabilities | | 32,025 | (37,864) |
| Change in non-current financial liabilities | | (7,265) | (32,876) |
| Cash flow from financing activities | | (64,485) | (139,929) |
| Exchange rate-related changes in cash and cash equivalents | | (2,546) | 4,750 |
| Change in cash and cash equivalents | | 9,039 | (20,174) |
| Cash and cash equivalents at the beginning of the period | | 30,928 | 51,102 |
| Cash and cash equivalents at the end of the period | (16) | 39,967 | 30,928 |

SEGMENT INFORMATION

OF HUGO BOSS GROUP

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006

SEGMENT INFORMATION BY PRODUCT AREA

| in € million | Menswear segment ¹ | | Womenswear segment | |
|--|----------------------------------|----------------|-----------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| Sales | 1,333.3 | 1,213.7 | 162.2 | 95.7 |
| Depreciation/amortization | (42.9) | (38.2) | (6.1) | (3.1) |
| EBIT | 173.1 | 157.9 | 11.3 | 5.0 |
| in % of sales | 13.0 | 13.0 | 7.0 | 5.2 |
| Net income | 120.9 | 106.1 | 7.8 | 2.1 |
| in % of sales | 9.1 | 8.7 | 4.8 | 2.2 |
| Assets | 866.0 | 788.1 | 87.2 | 65.9 |
| Liabilities | 320.8 | 261.5 | 138.0 | 124.7 |
| Equity | 545.2 | 526.6 | (50.8) | (58.8) |
| Capital expenditure | 93.3 | 73.2 | 5.2 | 3.4 |
| Number of employees (full-time equivalents) | 7,820 | 6,997 | 621 | 587 |

¹ Existing men's collections business. Amounts attributable to the HUGO Woman product line have been included to simplify the presentation.

SEGMENT INFORMATION BY REGION

| | 2006 | | 2005 | |
|----------------------------|----------------|------------|----------------|------------|
| | in € million | in % | in € million | in % |
| Sales | | | | |
| Germany | 346.9 | 23 | 318.4 | 25 |
| Other European countries | 681.9 | 46 | 582.5 | 44 |
| Americas | 273.6 | 18 | 233.4 | 18 |
| Asia/other regions | 150.1 | 10 | 134.2 | 10 |
| Royalties | 43.0 | 3 | 40.9 | 3 |
| Total | 1,495.5 | 100 | 1,309.4 | 100 |
| Assets | | | | |
| Germany | 351.1 | 37 | 324.4 | 38 |
| Other European countries | 399.6 | 42 | 331.8 | 39 |
| Americas | 134.8 | 14 | 133.3 | 16 |
| Asia/other regions | 53.1 | 5 | 51.7 | 6 |
| Royalties | 14.6 | 2 | 12.8 | 1 |
| Total | 953.2 | 100 | 854.0 | 100 |
| Capital expenditure | | | | |
| Germany | 34.9 | 35 | 25.8 | 34 |
| Other European countries | 49.5 | 50 | 40.3 | 53 |
| Americas | 9.7 | 10 | 8.7 | 11 |
| Asia/other regions | 4.4 | 5 | 1.8 | 2 |
| Total | 98.5 | 100 | 76.6 | 100 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2006

BASIS OF PRESENTATION

The consolidated financial statements of HUGO BOSS AG for the year ending December 31, 2006, were prepared in accordance with the accounting principles of the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS). All International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as well as interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to fiscal 2006 have been taken into account. The preparation of the consolidated financial statements requires – in the case of certain items – that assumptions are made that may impact the recognition of such items in the consolidated balance sheet and the consolidated income statement, as well as in the disclosure of other financial liabilities and contingent liabilities.

To improve clarity of presentation, various items in the consolidated balance sheet and the consolidated income statement have been combined. These items are listed separately and discussed in the notes to the consolidated financial statements.

The preparation of the consolidated financial statements in EUR thousand may cause rounding differences when adding individual items, since the calculation of the individual items is based on figures stated in euros.

APPLICATION OF NEW IFRS AND AMENDED IAS

NEW FINANCIAL REPORTING REQUIREMENTS

The following financial reporting standards or amendments to existing standards are effective for annual periods beginning on or after January 1, 2006:

- Revision of IAS 19 (Employee Benefits)
Allows the option of recognizing actuarial gains and losses of defined benefit plans in equity without effect on income.
- Revision of IAS 39 (Financial Instruments: Recognition and Measurements)
Governs the hedging of cash flows of highly probable intragroup forecast transactions and restricts the use of the option to designate any financial asset or any financial liability to be measured at fair value.
- IFRS 6 (Exploration for and Evaluation of Mineral Resources)
- Revision of IFRS 1 (First-time Adoption of International Financial Reporting Standards)

The first-time application of IFRIC 4, IFRIC 5, and IFRIC 6 as well as the application of these new or revised standards have not had a material impact on the financial position or performance of the Group.

The following financial reporting standards have been issued, but are not required to be applied for fiscal year 2006.

- IFRS 7 (Financial Instruments: Disclosures)
Governs the disclosure of financial instruments for industrial entities as well as for banks and similar financial institutions. IFRS 7 is effective for annual periods beginning on or after January 1, 2007.
- IFRS 8 (Operating Segments)
Replaces the “risk and reward approach” to segment reporting as described in IAS 14 with a “management approach” to reporting on the financial performance of operating segments. IFRS 8 is effective for annual periods beginning on or after January 1, 2009.
- Revision of IAS 1 (Presentation of Financial Statements)
Introduces requirements for disclosures about an entity’s capital. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2007.
- IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies)
This Interpretation is effective for annual periods beginning on or after March 1, 2006.
- IFRIC 8 (Scope of IFRS 2)
This Interpretation is effective for annual periods beginning on or after May 1, 2006.
- IFRIC 9 (Reassessment of Embedded Derivatives)
This Interpretation is effective for annual periods beginning on or after June 1, 2006.
- IFRIC 10 (Interim Financial Reporting and Impairment)
This Interpretation is effective for annual periods beginning on or after November 1, 2006.

- IFRIC 11 (IFRS 2: Group and Treasury Share Transactions)

This Interpretation is effective for annual periods beginning on or after March 1, 2007.

- IFRIC 12 (Service Concession Arrangements)

This Interpretation is effective for annual periods beginning on or after January 1, 2008.

These new financial reporting requirements have not been applied for the 2006 consolidated financial statements. Future consolidated financial statements are not expected to be materially affected by these new requirements.

SCOPE OF CONSOLIDATION

The scope of consolidation of the HUGO BOSS Group covers HUGO BOSS AG and the subsidiaries controlled by HUGO BOSS AG. Generally, control is said to exist if the Group has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In addition to HUGO BOSS AG, Metzingen, Germany, these include the following companies (equity share of 100% unless otherwise noted):

BIL Leasing Verwaltungs-GmbH & Co. 869 KG, Poecking, Germany¹
 HUGO BOSS (Schweiz) AG, Zug, Switzerland
 HUGO BOSS Australia Pty. Ltd., Preston, Australia
 HUGO BOSS Belgium BVBA, Diegem, Belgium
 HUGO BOSS Belgium Retail BVBA, Diegem, Belgium
 HUGO BOSS Benelux B.V., Amsterdam, Netherlands
 HUGO BOSS Benelux Retail B.V., Amsterdam, Netherlands
 HUGO BOSS Beteiligungsgesellschaft mbH, Metzingen, Germany
 HUGO BOSS Canada, Inc., Toronto, Canada
 HUGO BOSS China Retail Co. Ltd., Shanghai, China
 HUGO BOSS Cleveland, Inc., Wilmington, DE, USA
 HUGO BOSS Denmark APS, Copenhagen, Denmark
 HUGO BOSS Dienstleistungs GmbH, Metzingen, Germany
 HUGO BOSS do Brasil Ltda., São Paulo, Brazil
 HUGO BOSS España, S.A., Madrid, Spain
 HUGO BOSS Fashions, Inc., Wilmington, DE, USA
 HUGO BOSS France SAS, Paris, France
 HUGO BOSS Germany Retail GmbH, Metzingen, Germany
 HUGO BOSS Holding Netherlands B.V., Amsterdam, Netherlands
 HUGO BOSS Holdings Pty. Ltd., Preston, Australia
 HUGO BOSS Holding Sourcing S.A., Coldrerio, Switzerland
 HUGO BOSS Hong Kong Ltd., Hong Kong, China
 HUGO BOSS Industries (Switzerland) Ltd., Coldrerio, Switzerland
 HUGO BOSS International B.V., Amsterdam, Netherlands
 HUGO BOSS International Markets AG, Zug, Switzerland
 HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen, Germany
 HUGO BOSS Italia S.p.A., Milan, Italy
 HUGO BOSS Japan K.K., Tokyo, Japan
 HUGO BOSS Licensing, Inc., Wilmington, DE, USA
 HUGO BOSS Mexico Management Services S.A. de C.V., Mexico City, Mexico
 HUGO BOSS Mexico S.A. de C.V., Mexico City, Mexico
 HUGO BOSS Outlet Magazacilik Limited Sirketi, Izmir, Turkey
 HUGO BOSS Portugal, Unipessoal, Lda., Lisbon, Portugal
 HUGO BOSS Retail, Inc., Wilmington, DE, USA

¹ Investments with an equity share of 94%.

HUGO BOSS S. p. A., Como, Italy
 HUGO BOSS Scandinavia AB, Stockholm, Sweden
 HUGO BOSS Services (Svizzera) S. A., Besazio, Switzerland
 HUGO BOSS Shoes & Accessories Italia S. p. A., Morrovalle, Italy
 HUGO BOSS Shoes & Accessories S. A., Coldrerio, Switzerland
 HUGO BOSS shoes & accessories, Inc., Wilmington, DE, USA
 HUGO BOSS Switzerland Retail AG, Zurich, Switzerland
 HUGO BOSS Textile Industry Ltd., Izmir, Turkey
 HUGO BOSS Trade Mark Management GmbH & Co. KG, Metzingen, Germany
 HUGO BOSS Trade Mark Management Verwaltungs-GmbH, Metzingen, Germany
 HUGO BOSS UK Limited, London, United Kingdom
 HUGO BOSS USA, Inc., Wilmington, DE, USA
 HUGO BOSS Vermögensverwaltungs GmbH & Co. KG, Metzingen, Germany
 MSC Poland Sp. z. o. o., Radom, Poland
 ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstraße KG,
 Duesseldorf, Germany¹
 ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG,
 Duesseldorf, Germany¹
 The Joseph & Feiss Company, Wilmington, DE, USA

¹ Investments with an equity share of 94%.

CHANGES IN THE SCOPE OF CONSOLIDATION

During the reporting period from January 1 to December 31, 2006, the number of consolidated companies remained unchanged in comparison with December 31, 2005.

The number of consolidated companies in France decreased by one in 2006 due to optimization of the Group's corporate structure.

A new sales company was established on June 30, 2006 as a result of the rising importance of the Eastern European markets.

During fiscal 2006 Baldessarini GmbH & Co. KG and Baldessarini Design und Verwaltungs-GmbH were eliminated from the scope of consolidation of the HUGO BOSS Group due to the sale of the textile activities of the BALDESSARINI brand.

Eura 2000 S. A., Luxembourg, Luxembourg, which was liquidated in fiscal 2006, was also eliminated from the scope of consolidation.

The following companies were consolidated for the first time in fiscal 2006: HUGO BOSS China Retail Co. Ltd., Shanghai, China; HUGO BOSS Vermögensverwaltungs GmbH & Co. KG, Metzingen, Germany; and HUGO BOSS Holding Sourcing S. A., Coldrerio, Switzerland.

An overview of the number of companies included in the 2006 consolidated financial statements is shown below:

NUMBER OF FULLY-CONSOLIDATED COMPANIES

| | 2006 | 2005 |
|--|-----------|-----------|
| January 1 | 52 | 54 |
| Newly founded/consolidated companies | 4 | 3 |
| Divestments/exclusion from consolidation | (4) | – |
| Merged companies | – | (5) |
| December 31 | 52 | 52 |

INFORMATION CONCERNING THE MAJORITY SHAREHOLDER

Valentino Fashion Group S. p. A., Milan, Italy, holds the majority of voting rights in HUGO BOSS AG due to its control in V.F.G. International N.V., Amsterdam, Netherlands. The consolidated financial statements of HUGO BOSS AG are included in the consolidated financial statements of the Valentino Fashion Group S. p. A., Milan, Italy.

PRINCIPLES OF CONSOLIDATION

As part of the initial consolidation of a subsidiary, the cost of the equity investment is compared with the Group's interest in the carrying amount of the equity of the company concerned. As a general rule, any difference between the cost of the equity investment and the Group's interest in the company's equity is fully allocated to the assets and liabilities of the subsidiary in question where such difference is based on hidden reserves or charges. Any remaining excess of the cost of the equity investment over the Group's interest in the company's equity is capitalized as goodwill and tested for impairment on the level of the corresponding cash-generating unit.

The effects of intercompany transactions have been eliminated. Receivables and liabilities between consolidated companies have been offset; intercompany gains and losses on non-current assets and inventories have been eliminated and intercompany income offset against the corresponding expenses. Deferred taxes are recognized as required by IAS 12 to account for any temporary differences resulting from the consolidation.

CURRENCY TRANSLATION

The reporting currency of the HUGO BOSS Group is the euro. Foreign currency transactions in the separate financial statements of Group companies are translated at the exchange rate appli-

cable on the date of the transaction. Monetary items denominated in foreign currencies are generally translated at the closing rate. The resulting foreign currency gains and losses are recognized immediately in income.

The financial statements of foreign Group companies, which are economically independent units, are translated into euros based on the modified closing rate method in accordance with IAS 21. In principle, the functional currency is the local currency of the respective country. Notwithstanding of this, the functional currency of HUGO BOSS Textile Industry Ltd. is the euro, since the majority of business transactions of this company are negotiated in euros. HUGO BOSS Textile Industry Ltd. is a foreign business operation that is integrated into the business operations of HUGO BOSS AG. Consequently, there is no need to translate these financial statements into euros.

Assets and liabilities are translated at the middle rate on the balance sheet date, while items in the income statement are generally translated at the rate at the time of the transaction. For reasons of clarity and materiality, an average of the daily rates is used. Equity is translated at historical rates.

The difference between the translation of the income statement at average rates and of the balance sheet at closing rates is reported under accumulated other equity without impacting earnings. The foreign exchange difference resulting from the translation of equity at historical rates was similarly taken directly to accumulated other equity.

The exchange rates of the currencies most relevant to the consolidated financial statements showed the following movements in relation to the euro:

| Country | Currency | Average Rate | | Closing Rate | | |
|---------------|----------|--------------|----------|--------------|----------|----------|
| | | 1 EUR = | 2006 | 2005 | 2006 | 2005 |
| Australia | AUD | | 1.6662 | 1.6325 | 1.6691 | 1.6197 |
| Brazil | BRL | | 2.7294 | 3.0425 | 2.8123 | 2.7748 |
| Canada | CAD | | 1.4233 | 1.5102 | 1.5281 | 1.3796 |
| Denmark | DKK | | 7.4591 | 7.4522 | 7.4560 | 7.4587 |
| Great Britain | GBP | | 0.6818 | 0.6839 | 0.6715 | 0.6883 |
| Hong Kong | HKD | | 9.7472 | 9.6992 | 10.2409 | 9.1681 |
| Japan | JPY | | 146.0126 | 136.8685 | 156.9300 | 139.4300 |
| Mexico | MXN | | 13.6831 | 13.5785 | 14.3230 | 12.7446 |
| Sweden | SEK | | 9.2544 | 9.2800 | 9.0404 | 9.4076 |
| Switzerland | CHF | | 1.5731 | 1.5483 | 1.6069 | 1.5585 |
| U. S. | USD | | 1.2549 | 1.2450 | 1.3170 | 1.1825 |

KEY INDICATORS OF SIGNIFICANT INVESTMENTS OF THE HUGO BOSS GROUP

Company

HUGO BOSS AG¹

HUGO BOSS International B. V.²

HUGO BOSS Trade Mark Management GmbH & Co. KG

HUGO BOSS USA, Inc.³

HUGO BOSS Benelux B. V.

HUGO BOSS France SAS

HUGO BOSS Industries (Switzerland) Ltd.

HUGO BOSS Italia S. p. A.

HUGO BOSS Canada, Inc.

HUGO BOSS Australia Pty. Ltd.

HUGO BOSS UK Limited

HUGO BOSS Hong Kong Ltd.

HUGO BOSS Shoes & Accessories Italia S. p. A.

HUGO BOSS Mexico S. A. de C. V.

HUGO BOSS Textile Industry Ltd.

HUGO BOSS España S. A.

HUGO BOSS Scandinavia AB

HUGO BOSS (Schweiz) AG

HUGO BOSS do Brasil Ltda.

HUGO BOSS Japan K. K.

HUGO BOSS Shoes & Accessories S. A.

¹ Profit prior to appropriation of profit of Group companies. Result includes proceeds from the sale of Group Investments totaling EUR 5,223 thousand (prior year: EUR -119 thousand).

² Profits include dividends receipts amounting EUR 79,561 thousand (2006) and EUR 15,230 thousand (2005).

³ Subgroup financial statement.

| | Result (in € thousand) | | Equity (in € thousand) | |
|------------------------|---------------------------|--------------------|---------------------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| Head Office | | | | |
| Metzingen, Germany | 2,859 | 4,208 | 623,257 | 653,923 |
| Amsterdam, Netherlands | 83,032 | 13,215 | 187,143 | 224,224 |
| Metzingen, Germany | 66,316 | 56,464 | 85,056 | 73,258 |
| Wilmington, DE, USA | 7,182 | 5,175 | 78,866 | 80,215 |
| Amsterdam, Netherlands | 9,006 | 8,358 | 72,595 | 63,589 |
| Paris, France | 2,947 | 1,152 ³ | 44,968 | 42,021 |
| Coldrerio, Switzerland | 27,131 | 19,790 | 42,400 | 61,823 |
| Milan, Italy | 398 | (55) | 15,205 | 14,807 |
| Toronto, Canada | 1,639 | 1,252 | 11,978 | 15,201 |
| Preston, Australia | 2,141 | 2,414 | 11,114 | 18,594 |
| London, United Kingdom | 9,398 | 10,217 | 10,784 | 11,381 |
| Hong Kong, China | 9,267 | 5,304 | 7,918 | 5,514 |
| Morrovalle, Italy | 1,863 | (754) | 6,821 | 5,166 |
| Mexico City, Mexico | 2,396 | 2,149 | 6,047 | 7,754 |
| Izmir, Turkey | 1,287 | (1,660) | 5,614 | 4,327 |
| Madrid, Spain | 113 | 141 | 5,256 | 5,143 |
| Stockholm, Sweden | 3,041 | 2,778 | 4,364 | 8,644 |
| Zug, Switzerland | 2,024 | 1,874 | 3,564 | 4,797 |
| São Paulo, Brazil | 221 | (576) | 1,020 | 817 |
| Tokyo, Japan | (4,723) | (69) | (3,211) | 1,332 |
| Coldrerio, Switzerland | (7,541) | (1,476) | (7,419) | (38) |

ACCOUNTING POLICIES

The financial statements of HUGO BOSS AG and those of its subsidiaries in Germany and abroad have been prepared in accordance with uniform accounting policies as set out in IAS 27.

RECOGNITION OF INCOME AND EXPENSES

Sales are recognized when it is probable that the economic benefit associated with the transaction will accrue to the company, and the amount of revenue can reliably be determined. Sales are recorded with adjustments for any discounts or rebates.

Proceeds from the sale of goods are recognized at the point of delivery after the risks and rewards have been transferred to the buyer.

Interest is recognized on a time proportion basis based on the effective yield of the asset.

Royalty revenues and other income are accounted for in the period of the underlying contract in line with contractual conditions.

Operating expenses are charged to income in accordance with the matching principle on the date of performance or expensed as incurred.

RECEIVABLES AND OTHER ASSETS

Receivables and other assets are accounted for at their cost. Appropriate provisions are recognized for all identifiable risks. Non-interest-bearing and low-interest-bearing receivables with maturities of more than one year are discounted.

INVENTORIES

Raw materials and supplies as well as merchandise are in principle carried at cost calculated on the basis of average costs. Work in progress and finished goods are measured at the cost of conversion. The cost of conversion includes fixed and variable overhead costs based on the normal utilization rate of the production facilities. Finance costs have not been taken into account.

Inventories are measured at the lower of cost or fair value less costs to sell.

PROPERTY, PLANT AND EQUIPMENT

Tangible assets used in business operations for more than one year are measured at cost less any accumulated depreciation. The cost includes all expenditures that are directly attributable to the production process and an appropriate share of production-related overhead costs. Finance costs are not capitalized. The measure of useful life used as the depreciation basis corresponds to the anticipated useful life of the asset within the Group. Depreciation based solely on tax regulations is not recognized.

Depreciation of buildings is in principle based on a useful life of 30 years; depreciation of buildings and leasehold improvements on third-party property is based on the shorter of the lease term or the useful life. As a general rule, movable non-current assets are depreciated using the straight-line method. For technical plant and equipment, the useful life ranges from five to 15 years, and for other plant and operating and office equipment from two to 15 years.

Useful lives and depreciation methods for property, plant and equipment are reviewed periodically to ensure that depreciation methods and periods reflect the expected economic benefit of the assets.

LEASE AGREEMENTS

In leases in which the Group is the lessee, the beneficial ownership of the leased asset is attributed to the lessee pursuant to IAS 17, provided such lessee retains substantially all risks and rewards of ownership of the leased asset (finance lease). Depreciation methods and useful lives correspond to those of comparable purchased assets. The leased assets are generally capitalized at cost when the lease is signed. Initial direct costs are capitalized. Corresponding lease obligations are shown under financial liabilities. The interest portion of the lease obligations is reported in the consolidated income statement over the term of the lease.

If the lessor retains beneficial ownership (operating lease), the leased assets are to be accounted for by the lessor. The related lease expenses are generally taken to income over the lease term on a straight-line basis.

INTANGIBLE ASSETS

Acquired and internally generated intangible assets are capitalized if it is probable that the use of the asset is associated with a future economic benefit and the cost of the asset can be reliably measured. Acquired intangible assets are measured at cost. Internally generated intangible assets that are likely to provide a future economic benefit for the Group and that can be reliably measured are capitalized at cost. The cost includes all costs that are directly attributable to the production of the asset and a proportionate share of production-related overheads. Finance costs are not capitalized. Acquired and internally generated intangible assets with a definite useful life are amortized over a useful life of two to four years on a straight-line basis.

Intangible assets with an indefinite useful life are tested for impairment annually. If the asset is impaired, the carrying amount is written down.

FINANCIAL INSTRUMENTS

Financial instruments are accounted for pursuant to IAS 39. Accordingly, financial assets, to the extent relevant to the HUGO BOSS Group at the time, are classified as follows:

- (a) financial assets held for trading;
- (b) loans and receivables.

Purchases and sales of financial assets are recognized in accordance with the trade date accounting method. A financial asset is initially recognized at the time the Group becomes a party to a contract. The asset is measured at cost, which corresponds to the fair value of the consideration, including transaction costs.

Changes in the fair value of financial assets held for trading are recognized in the consolidated income statement.

Loans and receivables are subsequently measured at amortized cost using the effective interest method.

Financial assets are derecognized when their disposal has been contractually agreed upon. Loans and receivables are derecognized upon payment.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the HUGO BOSS Group, solely for the purpose of hedging interest rate risks and currency exposure arising from operations.

When entering into hedging transactions, specific derivatives are linked to specific hedged items (micro-hedging). The requirements of IAS 39 related to the designation of such transactions as hedging transactions are complied with.

According to IAS 39, all derivative financial instruments are measured at market value, regardless of their designated purpose or intention.

To the extent that financial instruments qualify as effective hedging instruments within the scope of a hedging relationship as defined by IAS 39 (cash flow hedges), any changes in fair value do not impact net income for the period throughout the term of the derivative. Changes in fair value are directly charged to equity in the appropriate reserve item. The amounts accumulated in equity are recognized in profit or loss for the period in which the hedged cash flow falls due.

The fair value generally corresponds to its market value or stock exchange price. If there is no active market, the fair value is determined on the basis of recognized option pricing models or by means of a bank confirmation.

Changes in the market value of any derivative financial instruments classified as "held for trading" pursuant to IAS 39 are recognized in the income statement.

It is the Group's policy to use effective derivatives for the exclusive purpose of hedging interest rate risks and currency exposure. The substantive and formal requirements under IAS 39 regarding hedge accounting have been satisfied both at the time that the hedging contract was entered into and on the balance sheet date.

IMPAIRMENT OF ASSETS

The carrying amounts of intangible assets and of property, plant and equipment are regularly reviewed for impairment on the basis of cash-generating units in accordance with IAS 36.

Impairment losses are recognized if the carrying amount of intangible assets or property, plant and equipment determined in accordance with the principles above exceeds the recoverable amount at the balance sheet date. The recoverable amount is the greater of the net selling price and the present value of estimated future cash flows from continuing use of the asset. In the event that the reasons for impairment cease to exist, reversals of impairment losses are recognized by a corresponding increase to the amortized cost.

Financial assets are reviewed for impairment as of each balance sheet date. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction represents an impairment loss. An impairment loss that has previously been recognized in income is reversed, insofar as required by new circumstances, up to no more than amortized cost.

INCOME TAXES

The amount of income taxes depends on the amount of earnings and includes deferred taxes. In accordance with IAS 12, deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts in the tax accounts of the individual companies and the carrying amounts in IFRS consolidated financial statements, as well as for specific transactions related to business combinations. Deferred tax assets also include claims for tax reductions resulting from the anticipated use of loss carryforwards in subsequent years, the realization of which is deemed reasonably certain.

Deferred tax assets and liabilities are measured in accordance with the expected tax rates for the period in which the temporary differences are likely to be reversed.

LIABILITIES

Liabilities are measured at their nominal value or repayment amount. Liabilities from finance leases are shown under financial liabilities and measured at the present value of future lease payments.

PROVISIONS

Provisions have been set up whenever a legal or constructive obligation currently exists towards third parties as a result of a past event and when the obligation is likely to result in a future outflow of resources and can be reliably estimated.

Provisions are reviewed as of each balance sheet date and adjusted to the current best estimate. If the interest effect is material, the provision equals the present value of the expenditure expected to be required to settle the obligation.

PROVISIONS FOR PENSIONS

The measurement of provisions for pensions is based on the projected unit credit method prescribed in IAS 19 for defined benefit plans; this method takes into account future salary and pension increases. The present value of the defined benefit obligations at year-end is compared to the fair value of plan assets invested in funds. Generally, actuarial gains and losses are immediately recognized in income.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities are not reported in the accounts. Contingent liabilities are disclosed in the notes, unless there is a very low probability that they will result in an outflow of economic benefits. Likewise, contingent assets are not shown in the accounts. They are disclosed in the notes, provided an associated inflow of economic benefits is considered likely.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date, which provide additional information on the situation of the Company on the balance sheet date (adjusting events after the balance sheet date), are reported in the consolidated financial statements. Non-adjusting events after the balance sheet date are disclosed in the notes if they are of a material nature.

JUDGMENTS MADE IN THE APPLICATION OF THE COMPANY'S ACCOUNTING POLICIES

a) Measurement of directly operated stores

When testing intangible assets and property, plant and equipment related to directly operated stores (DOS) for impairment, the following assumptions have been made:

- Each individual DOS is defined as a cash-generating unit.
- The future cash flows used for impairment tests are derived and discounted based on budget plans and medium-term forecasting for the individual DOS.

b) Specific valuation allowances for receivables

The recoverability of trade receivables is determined on the basis of the estimated probability of default. Accordingly, specific valuation allowances are recognized for trade receivables due from customers in their full amount when insolvency proceedings against such customers' assets have been initiated (to the extent that existing collateral is not recoverable). Specific valuation allowances for past due receivables are based on individually determined percentages. External expert opinions have been obtained to determine the value of collateral during such impairment reviews.

c) Measurement of inventories

Write-downs are recognized for inventory risks resulting from a partial reduction in marketability due to long storage periods.

With respect to the BOSS Black product line, reductions ranging from 5% to 90% are applied to raw materials, depending on the season. No write-downs are recognized for work in progress. Measurement of finished goods and merchandise is based on the fair value less costs to sell that can be realized via the Group's own sales channels. Impairments recognized to account for lower expected sales prices related to inventories of the HUGO brand as well as of the BOSS Orange and BOSS Green product lines are anticipated on the basis of marketability and inventory range analyses.

NOTES TO THE INCOME STATEMENT

(1) SALES

Sales by brand and region

| 2006 | BOSS Mens- wear | BOSS Womens- wear | HUGO | Others | |
|--------------------------|--------------------------------|----------------------------------|----------------|---------------|------------------|
| in € thousand | | | | | |
| Germany | 248,088 | 42,859 | 52,322 | 3,605 | 346,874 |
| Other European countries | 556,875 | 73,618 | 47,305 | 4,141 | 681,939 |
| Americas | 235,498 | 19,391 | 17,392 | 1,305 | 273,586 |
| Asia/other regions | 123,537 | 21,177 | 4,469 | 907 | 150,090 |
| Royalties | 21,694 | 5,243 | 14,699 | 1,400 | 43,036 |
| | 1,185,692 | 162,288 | 136,187 | 11,358 | 1,495,525 |

| 2005 | BOSS Mens- wear | BOSS Womens- wear | HUGO | Others | |
|--------------------------|--------------------------------|----------------------------------|----------------|---------------|------------------|
| in € thousand | | | | | |
| Germany | 235,320 | 26,014 | 50,167 | 6,864 | 318,365 |
| Other European countries | 496,490 | 40,218 | 40,747 | 5,045 | 582,500 |
| Americas | 208,041 | 9,802 | 14,057 | 1,509 | 233,409 |
| Asia/other regions | 112,573 | 15,667 | 4,931 | 1,117 | 134,288 |
| Royalties | 19,394 | 3,981 | 14,583 | 2,897 | 40,855 |
| | 1,071,818 | 95,682 | 124,485 | 17,432 | 1,309,417 |

(2) OTHER OPERATING INCOME

| in € thousand | 2006 | 2005 |
|--------------------------------------|---------------|---------------|
| Income on marketing expenses charged | 37,261 | 24,937 |
| Income on other expenses charged | 16,923 | 9,881 |
| Out of period income | 6,972 | 8,452 |
| Other operating income | 8,326 | 8,125 |
| | 69,482 | 51,395 |

Income from marketing expenses charged is largely composed of charges for shop fittings, marketing materials, and advertising as well as sponsorship activities.

Out of period income has resulted primarily from the reversal of provisions.

(3) COST OF MATERIALS

| in € thousand | 2006 | 2005 |
|----------------------------|----------------|----------------|
| Raw materials and supplies | 356,883 | 288,498 |
| Purchased merchandise | 223,537 | 233,825 |
| Purchased services | 82,563 | 74,840 |
| | 662,983 | 597,163 |

The cost of materials includes foreign exchange gains (after netting against exchange losses) in the amount of EUR 334 thousand achieved from sales activities (2005: foreign exchange losses of EUR 2,516 thousand).

These foreign exchange gains or losses result primarily from exchange rate changes between the date of the transaction and date of the cash flows (at the spot exchange rate) as well as from measurement at the closing rate.

The cost of materials for 2006 includes inventory write-downs totaling EUR 5,182 thousand (2005: expense of EUR 5,182 thousand).

(4) PERSONNEL EXPENSES

| in € thousand | 2006 | 2005 |
|--|----------------|----------------|
| Wages and salaries | 230,925 | 199,934 |
| Social security | 39,551 | 35,167 |
| Expenses for retirement benefits and aid | 7,344 | 3,098 |
| | 277,820 | 238,199 |

Expenses for retirement benefits consist primarily of increases in provisions for pensions.

The number of employees changed as follows:

| | 2006 | 2005 |
|---|--------------|--------------|
| Industrial employees | 4,483 | 4,250 |
| Commercial and administrative employees | 3,958 | 3,334 |
| | 8,441 | 7,584 |

The number of employees was calculated as the number of employees as of December 31, taking into account part-time employees on a pro-rata basis.

During the year 2006, the HUGO BOSS Group employed 7,963 personnel on an average basis (2005: 7,326).

(5) DEPRECIATION/AMORTIZATION

A breakdown of the amortization of intangible assets and the depreciation of property, plant and equipment can be obtained from the notes on each item. Total depreciation and amortization amounted to EUR 49,017 thousand (2005: EUR 41,320 thousand).

(6) OTHER OPERATING EXPENSES

| in € thousand | 2006 | 2005 |
|----------------------------------|----------------|----------------|
| Marketing expenses | 150,715 | 127,806 |
| Other selling expenses | 131,677 | 107,343 |
| Operating expenses | 40,699 | 32,730 |
| General and administrative costs | 37,784 | 34,591 |
| Miscellaneous operating expenses | 34,571 | 31,978 |
| Out-of-period expenses | 17,392 | 6,269 |
| | 412,838 | 340,717 |

Marketing expenses primarily consist of costs incurred for advertising, trade fairs, sponsorship activities, and commercial marketing.

The key components of other selling expenses are commissions, duties, and freight costs – i. e. mainly variable sales-related costs – along with rental expenses and costs for creating the collections.

General and administrative expenses consist largely of legal and consulting fees, IT operating costs, maintenance costs, and rent for premises.

Miscellaneous operating expenses chiefly include allowances for doubtful accounts, other personnel expenses, credit card fees, and hedging transaction fees. This item includes other taxes in the amount of EUR 2,925 thousand (2005: EUR 2,235 thousand).

The out-of-period expenses for fiscal 2006 include effects from the first-time recognition of a liability in the amount of EUR 5.5 million deriving from the future minimum dividend obligation of EUR 0.01 for the holders of non-voting preferred stock. According to IAS 32, the minimum dividend obligation must be recognized as a liability in the Group Financial Statements.

In addition, out-of-period expenses include a loss from the disposal of BALDESSARINI GmbH & Co. KG and BALDESSARINI Design und Verwaltungs-GmbH in 2006 in the amount of EUR 2.1 million.

Other out-of-period expenses are on a comparable level as in 2005 and include, for example, losses from the disposal of property, plant and equipment and intangible assets.

The total effect of out-of-period expenses (after netting against out-of-period income) equalled EUR 10.4 million (2005: EUR –2.2 million).

(7) FINANCIAL RESULT

| in € thousand | 2006 | 2005 |
|------------------------------------|----------------|----------------|
| Net interest income/expense | | |
| Other interest and similar income | 2,759 | 1,905 |
| Interest and similar expenses | (7,650) | (6,658) |
| | (4,891) | (4,753) |
| Other financial items | 420 | (922) |
| | (4,471) | (5,675) |

Other financial items consist chiefly of foreign exchange gains and losses incurred in the course of the Group's financing activities.

(8) INCOME TAXES

| in € thousand | 2006 | 2005 |
|----------------|---------------|---------------|
| Current taxes | 60,643 | 48,457 |
| Deferred taxes | (9,413) | 570 |
| | 51,230 | 49,027 |

In fiscal 2006, expenses for current income taxes relating to other reporting periods were recognized in the amount of EUR 8 thousand (2005: EUR 286 thousand). These expenses were partially offset by income relating to other reporting periods totaling EUR 56 thousand (2005: EUR 71 thousand).

The current tax expense was reduced by EUR 600 thousand, based on the application of unused tax credits from previous periods.

Deferred taxes are calculated on the basis of the tax rates applicable or anticipated in the relevant countries according to the legal situation prevailing at the time of realization. HUGO BOSS AG is subject to a domestic income tax rate of 37.3% (2005: 37.2%). Tax rates abroad range between 0% and 41%.

The following table shows a reconciliation of the anticipated income tax expense that would theoretically result given the application at Group level of the current domestic income tax rate of 37.3% (2005: 37.2%) with the income tax expense actually reported by the Group. The domestic

income tax rate used takes into account the corporate income tax rate (including the German unification solidarity surcharge) of 26.4% and the trade tax rate of 14.9%.

| in € thousand | 2006 | 2005 |
|---|----------|----------|
| Pre-tax result | 179,896 | 157,238 |
| Anticipated income tax | 67,104 | 58,492 |
| Tax effect of non-deductible expenses and tax-exempt income | (1,954) | 936 |
| Tax rate-related deviation | (15,519) | (10,618) |
| Tax refunds/back taxes | (729) | (917) |
| Valuation allowance on deferred tax assets | 740 | 316 |
| Other deviations | 1,588 | 818 |
| Income tax expenditure carried | 51,230 | 49,027 |
| Income tax load | 28.5% | 31.2% |

Deferred taxes in the consolidated balance sheet relate to the following items:

| in € thousand | 2006 | | 2005 | |
|---|---------------|----------------|---------------|-----------------|
| | Accruals | Deferrals | Accruals | Deferrals |
| Provisions | 16,011 | (4) | 9,876 | (3,410) |
| Tax loss carryforwards | 3,805 | 0 | 2,212 | 0 |
| Inventory measurement | 7,922 | (4,353) | 7,709 | (3,955) |
| Recognition and measurement of non-current assets | 5,775 | (3,225) | 4,240 | (2,517) |
| Receivable measurement | 3,256 | (47) | 7,930 | (1,688) |
| Market valuation of financial instruments | 0 | (109) | 0 | (73) |
| Other differences in recognition and measurement | 2,230 | (172) | 1,654 | (176) |
| | 38,999 | (7,910) | 33,621 | (11,819) |
| Valuation allowance | (3,411) | – | (2,387) | – |
| | 35,588 | (7,910) | 31,234 | (11,819) |

Expenses for deferred taxes include, in addition to the effects from the creation or the reversal of temporary differences between the carrying amounts in the consolidated financial statements and those in the financial statements for tax purposes, income from changes in the tax rates amounting to EUR 172 thousand (2005: EUR 114 thousand) as well as income from the reduction of a valuation allowance previously recognized for deferred taxes amounting to EUR 292 thousand (2005: EUR 285 thousand).

Due to a required adjustment to the applicable tax rate for the calculation of deferred taxes for business combinations, a one-time tax expense of EUR 2,415 thousand was incurred in fiscal 2006.

Valuation allowances for deferred taxes are recorded if there are doubts as to their future recoverability. To calculate these write-downs, all positive and negative factors that might impact the achievement of sufficient future taxable income are taken into consideration.

The valuation allowances for deferred taxes stem from temporary differences in the amount of EUR 1,609 thousand (2005: EUR 1,233 thousand) and from unused tax loss carryforwards in the amount of EUR 1,802 thousand (2005: EUR 1,154 thousand).

(9) MINORITY INTERESTS

The consolidated financial statements include companies in which HUGO BOSS AG holds less than 100% of the equity. In accordance with IAS 27, the related minority interests are reported in equity separately from the equity held by HUGO BOSS AG shareholders in the consolidated balance sheet. Minority interests in the Group's net income are also reported separately in the consolidated income statement.

(10) EARNINGS PER SHARE

Pursuant to IAS 33, earnings per share (EPS) are calculated by dividing the net income or loss for the period by the weighted average number of shares outstanding during the fiscal year. Neither on December 31, 2006 nor on December 31, 2005 were shares outstanding that could have diluted earnings per share.

| | 2006 | 2005 |
|---|------------|------------|
| Net income in EUR million | 128.7 | 108.2 |
| Average number of shares outstanding ¹ | | |
| Common shares | 35,464,296 | 35,631,144 |
| Preferred shares | 34,135,115 | 34,450,414 |
| EPS common shares in EUR ² | 1.84 | 1.54 |
| EPS preferred shares in EUR ² | 1.86 | 1.55 |

¹ Includes effect of share buyback program.

² Stock options program: Only phantom stocks issued, so no dilution of number of outstanding shares.

NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

| in € thousand | Property, plant and equipment | Intangible assets | Total fixed assets |
|---|----------------------------------|----------------------|-----------------------|
| Cost of acquisition | | | |
| Balance at 1/1/06 | 417,318 | 104,043 | 521,361 |
| Change in the scope of consolidation | (489) | (7) | (496) |
| Currency translation effects | (10,946) | (593) | (11,539) |
| Additions | 83,619 | 15,564 | 99,183 |
| Disposals | (19,792) | (433) | (20,225) |
| Transfers | (651) | 651 | 0 |
| Balance at 12/31/06 | 469,059 | 119,225 | 588,284 |
| Depreciation/ amortization | | | |
| Balance at 1/1/06 | 188,353 | 29,679 | 218,032 |
| Change in the scope of consolidation | (167) | (2) | (169) |
| Currency translation effects | (5,384) | (696) | (6,080) |
| Additions | 42,994 | 6,023 | 49,017 |
| Disposals | (15,703) | (399) | (16,102) |
| Balance at 12/31/06 | 210,093 | 34,605 | 244,698 |
| Carrying amount at 12/31/06 | 258,966 | 84,620 | 343,586 |
| Carrying amount at 12/31/05 | 228,965 | 74,364 | 303,329 |

Land charges exist in conjunction with land and buildings in the amount of EUR 40.1 million (2005: EUR 41.4 million).

(11) INTANGIBLE ASSETS

| in € thousand | Franchises, industrial property rights ¹ | Internally developed software | Goodwill | Total |
|---|--|-------------------------------------|---------------|---------------|
| Cost of acquisition | | | | |
| Balance at 1/1/06 | 70,625 | 5,603 | 27,815 | 104,043 |
| Change in the scope of consolidation | (7) | 0 | 0 | (7) |
| Currency translation effects | (593) | 0 | 0 | (593) |
| Additions | 15,564 | 0 | 0 | 15,564 |
| Disposals | (433) | 0 | 0 | (433) |
| Transfers | 651 | 0 | 0 | 651 |
| Balance at 12/31/06 | 85,807 | 5,603 | 27,815 | 119,225 |
| Amortization | | | | |
| Balance at 1/1/06 | 22,895 | 4,553 | 2,231 | 29,679 |
| Change in the scope of consolidation | (2) | 0 | 0 | (2) |
| Currency translation effects | (696) | 0 | 0 | (696) |
| Additions | 4,973 | 1,050 | 0 | 6,023 |
| Disposals | (399) | 0 | 0 | (399) |
| Balance at 12/31/06 | 26,771 | 5,603 | 2,231 | 34,605 |
| Carrying amount at 12/31/06 | 59,036 | 0 | 25,584 | 84,620 |
| Carrying amount at 12/31/05 | 47,730 | 1,050 | 25,584 | 74,364 |

¹ And similar rights, including licenses.

In accordance with IAS 38, goodwill is classified as an asset with an indefinite useful life.

The item "Franchises, industrial property rights" includes other assets with indefinite useful lives (particularly trademark rights) in the amount of EUR 19,461 thousand (2005: EUR 21,255 thousand).

(12) PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Technical equipment and machinery | Other equipment, operating and office equipment | Prepayments made and construction in progress | Total |
|---|--------------------------|--|---|--|----------------|
| in € thousand | | | | | |
| Cost of acquisition | | | | | |
| Balance at 1/1/06 | 118,920 | 37,059 | 255,974 | 5,365 | 417,318 |
| Change in the scope of consolidation | 0 | 0 | (489) | 0 | (489) |
| Currency translation effects | (1,915) | (1,030) | (8,015) | 14 | (10,946) |
| Additions | 12,137 | 1,568 | 67,199 | 2,715 | 83,619 |
| Disposals | (1,393) | (1,479) | (16,920) | 0 | (19,792) |
| Transfers | 159 | 5 | 3,111 | (3,926) | (651) |
| Balance at 12/31/06 | 127,908 | 36,123 | 300,860 | 4,168 | 469,059 |
| Depreciation | | | | | |
| Balance at 1/1/06 | 32,320 | 23,826 | 132,207 | 0 | 188,353 |
| Change in the scope of consolidation | 0 | 0 | (167) | 0 | (167) |
| Currency translation effects | (667) | (754) | (3,963) | 0 | (5,384) |
| Additions | 4,557 | 2,872 | 35,164 | 401 | 42,994 |
| Disposals | (1,381) | (1,435) | (12,887) | 0 | (15,703) |
| Balance at 12/31/06 | 34,829 | 24,509 | 150,354 | 401 | 210,093 |
| Carrying amount at 12/31/06 | 93,079 | 11,614 | 150,506 | 3,767 | 258,966 |
| Carrying amount at 12/31/05 | 86,600 | 13,233 | 123,767 | 5,365 | 228,965 |

Impairment losses totaling EUR 3,315 thousand (2005: EUR 2,948 thousand) were recognized for items of property, plant and equipment and shown under "depreciation/amortization" in the consolidated income statement.

FINANCE LEASES

Property, plant and equipment includes land amounting to EUR 4,139 thousand (2005: EUR 4,988 thousand) and operating and office equipment of EUR 1 thousand (2005: EUR 3 thousand) for which the Group retains beneficial ownership of the assets in accordance with IAS 17.

Under finance lease agreements, the following payments become due in subsequent periods:

| in € thousand | Payable 2007 | Payable 2008 to 2011 | Payable after 2011 |
|----------------|---------------------|---------------------------------|-------------------------------|
| Lease payments | 701 | 2,762 | 2,356 |
| Discounts | 262 | 834 | 263 |
| Present value | 439 | 1,928 | 2,093 |

OPERATING LEASES

In addition to finance leases, a substantial number of leases exist that qualify as operating leases due to their nature; consequently, the leased asset is accounted for by the lessor.

Operating leases particularly relate to rental agreements for properties used for the Group's retail activities, as well as for office space used by the Group. These rental agreements are predominantly based on minimum lease payments. There are also leases that contain agreements on contingent rents (in particular contingent on sales).

In fiscal 2006, rental expenses in the amount of EUR 61,383 thousand (2005: EUR 49,843 thousand) were recognized for operating leases. Contingent rental expenses totaled EUR 4,991 thousand (2005: EUR 4,919 thousand).

Payments falling due in subsequent periods under operating leases in existence at the reporting date are shown under "Other disclosures" (note 29).

As in the previous year, the Group did not generate substantial revenues from subleases in the year under review.

(13) OTHER ASSETS

| in € thousand | 2006 | | | 2005 | | |
|----------------------------|---------------|----------------------------|---------------------------|---------------|----------------------------|---------------------------|
| | | thereof: short- term | thereof: long- term | | thereof: short- term | thereof: long- term |
| Trade receivables | 9,855 | 0 | 9,855 | 10,340 | 0 | 10,340 |
| Tax claims and prepayments | 30,664 | 30,664 | 0 | 18,260 | 18,260 | 0 |
| Other assets | 47,797 | 28,807 | 18,990 | 46,188 | 30,528 | 15,660 |
| | 88,316 | 59,471 | 28,845 | 74,788 | 48,788 | 26,000 |

Other assets include positive market values from financial derivatives totaling EUR 1,688 thousand (2005: EUR 740 thousand).

(14) INVENTORIES

| in € thousand | 2006 | 2005 |
|--------------------------------|----------------|----------------|
| Finished goods and merchandise | 220,158 | 204,918 |
| Raw materials and supplies | 60,725 | 49,226 |
| Work in progress | 9,373 | 11,533 |
| | 290,256 | 265,677 |

The carrying amount of inventories recognized at the lower net realizable value is EUR 78,785 thousand (2005: EUR 103,064 thousand).

(15) TRADE RECEIVABLES

| in € thousand | 2006 | | 2005 | | | |
|-------------------|----------------------------|---------------------------|----------------------------|---------------------------|----------------|---------------|
| | thereof: short- term | thereof: long- term | thereof: short- term | thereof: long- term | | |
| Trade receivables | 162,355 | 152,500 | 9,855 | 156,266 | 145,926 | 10,340 |

As of December 31, 2006, the allowance for doubtful accounts amounted to EUR 30,288 thousand (2005: EUR 30,697 thousand).

Non-current trade receivables are reported in the consolidated balance sheet under "Other non-current assets."

(16) CASH AND CASH EQUIVALENTS

| in € thousand | 2006 | 2005 |
|--|---------------|---------------|
| Balances with banks and other financial assets | 37,731 | 29,374 |
| Checks/ec-cash | 1,062 | 890 |
| Cash in hand | 1,174 | 664 |
| | 39,967 | 30,928 |

EQUITY

The development of equity is shown in the statement of changes in equity on pp. 100 and 101.

(17) SUBSCRIBED CAPITAL

The share capital of HUGO BOSS AG as of December 31, 2006 totals EUR 70,400,000. It is divided into 70,400,000 no-par value bearer shares and can be broken down as follows:

| in € thousand | 2006 |
|--|---------------|
| Common shares 35,860,000 shares | 35,860 |
| Non-voting preferred shares 34,540,000 shares | 34,540 |
| | 70,400 |

The Managing Board of HUGO BOSS AG has authorized capital of EUR 35,200,000 at its disposal until May 18, 2009, subject to the consent of the Supervisory Board. Authorized capital allows the Company to increase its share capital on one or more occasions by issuing new common or preferred shares.

(18) OWN SHARES

HUGO BOSS AG repurchased a total of 248,304 common shares at an average price of EUR 31.99 and 340,305 preferred shares at an average price of EUR 32.54 during the period from January to December 2006.

The number of own shares changed as follows:

| | 2006 | 2005 |
|----------------------------------|---------|---------|
| Common shares | 526,055 | 277,751 |
| Share of subscribed capital in % | 0.7 | 0.4 |
| Preferred shares | 577,472 | 237,167 |
| Share of subscribed capital in % | 0.8 | 0.3 |

(19) CAPITAL RESERVE

The capital reserve contains premiums on the issuance of shares.

(20) RETAINED EARNINGS

Retained earnings reflect income earned in the past by the companies included in the consolidated financial statements, provided such income was not paid out as dividends, as well as effects on income resulting from consolidation adjustments for prior periods.

(21) ACCUMULATED OTHER EQUITY

Other recognized gains and losses reflect differences arising from the translation of foreign subsidiaries' financial statements with a negative impact on equity of EUR 20,847 thousand (2005: negative impact of EUR 7,372 thousand) and the effects from the measurement of financial instruments after taxes, neither of which is recognized in income. Deferred taxes not recognized in the income statement reflected tax assets of EUR 71 thousand (2005: tax assets of EUR 425 thousand).

(22) DIVIDENDS

In accordance with the German Stock Corporation Act (AktG), the dividend payout to shareholders is based on net retained earnings for the year as reported in the HUGO BOSS AG financial statements. It will be proposed at the Annual Shareholders' Meeting to distribute net retained earnings of EUR 82.8 million for 2006. This corresponds to EUR 1.19 per common share and EUR 1.20 per preferred share.

In 2006, dividends totaling EUR 70.2 million were paid out for outstanding shares for fiscal 2005 (in 2005 for fiscal 2004: EUR 59.2 million). This corresponds to EUR 1.00 (2005: EUR 0.84) per common share and EUR 1.01 (2005: EUR 0.85) per preferred share.

(23) PROVISIONS

| in € thousand | 2006 | 2005 |
|-------------------------------|---------------|---------------|
| Provisions for pensions | 26,406 | 18,581 |
| Other non-current provisions | 27,790 | 12,436 |
| Non-current provisions | 54,196 | 31,017 |
| Current provisions | 32,374 | 36,405 |
| | 86,570 | 67,422 |

Other provisions amounting to EUR 60,164 thousand (2005: EUR 48,841 thousand) comprise current provisions of EUR 32,374 thousand (2005: EUR 36,405 thousand) and other non-current provisions of EUR 27,790 thousand (2005: EUR 12,436 thousand).

Other provisions changed as follows during fiscal 2006:

| | Balance at 01/01/06 | Change in the scope of consol- idation | Currency trans- lation | Addition | Use | Release | Balance at 12/31/06 |
|---|---------------------------|--|------------------------------|---------------|-----------------|----------------|---------------------------|
| in € thousand | | | | | | | |
| Provisions for personnel expenses | 25,157 | (23) | (372) | 29,624 | (15,697) | (1,423) | 37,266 |
| Costs of litiga- tion, pending and threatened legal disputes | 7,956 | 0 | (58) | 5,316 | (7,462) | 0 | 5,752 |
| Miscellaneous provisions | 15,728 | (756) | (100) | 18,249 | (9,574) | (6,401) | 17,146 |
| | 48,841 | (779) | (530) | 53,189 | (32,733) | (7,824) | 60,164 |

Provisions for personnel expenses relate mainly to stock appreciation rights, profit sharing and bonuses, severance payments, outstanding vacation entitlements, and wages and salaries. When making provisions for stock appreciation rights, the date of the outflow of resources depends on the manner in which eligible employees exercise these rights.

Overall, the Company expects that EUR 27,790 thousand (2005: EUR 12,436 thousand) of the provisions for personnel expenses will become due for payment after more than 12 months.

Provisions for litigation costs and pending and threatened legal disputes include litigation costs for trademark protection. These provisions are classified as current provisions.

Miscellaneous other provisions mainly include provisions for product returns that are expected to be settled within 12 months.

(24) PROVISIONS FOR PENSIONS

| in € thousand | 2006 | 2005 |
|------------------------------------|---------------|---------------|
| Provisions for pensions | 22,989 | 15,497 |
| Provisions for similar obligations | 3,417 | 3,084 |
| | 26,406 | 18,581 |

Pension provisions are created for obligations based on pension benefits and for ongoing payments to eligible active and former employees of the HUGO BOSS Group. Pension commitments based on the retirement plans are determined largely by the period of service of the eligible employees. The plans are predominantly defined benefit plans.

The funding of the company retirement plan is covered by plan assets, by reinsurance, and by the Group's pension provisions.

Calculation of pension expenses is based on planned service cost and expected returns on plan assets. Based on the calculation principles set forth in IAS 19, the following is a summary of the current funding status of pension commitments:

| in € thousand | 2006 | 2005 |
|---|---------------|---------------|
| Change in present value of benefit obligation | | |
| Present value of benefit obligation on January 1 | 19,756 | 14,727 |
| Service cost | 3,639 | 917 |
| Interest cost | 922 | 708 |
| Actuarial gains/losses | 2,554 | 3,749 |
| Benefits paid | (540) | (345) |
| Other changes in benefit obligation | 7,624 | 0 |
| Present value of benefit obligation on December 31 | 33,955 | 19,756 |
| Change in plan assets | | |
| Fair value of plan assets on January 1 | 4,542 | 3,931 |
| Return on plan assets | 378 | 203 |
| Benefits paid | (402) | (132) |
| Other changes in plan assets | 6,740 | 540 |
| Fair value on plan assets on December 31 | 11,258 | 4,542 |
| Funding status of the benefits funded by plan assets | | |
| | 22,697 | 15,214 |
| Pensions funded by provisions | 292 | 283 |
| Provisions for pensions | 22,989 | 15,497 |

Pension expenses consist of service costs for the period, interest expense, the expected return on plan assets, and actuarial gains and losses. Total pension expenses are classified as personnel expenses.

Pension obligations were determined based on the following assumptions, taking into account country-specific circumstances:

| Actuarial assumptions | 2006 | 2005 |
|--|---------------|-------------|
| Discount rate | 2.00% – 4.20% | 4.00% |
| Rate of compensation increase | 0.00% – 1.75% | 1.75% |
| Expected rate of return on plan assets | 2.50% – 5.25% | 5.25% |

Pension obligations for Germany were calculated using biometric principles in accordance with the 2005 G mortality tables compiled by Prof. Dr. Klaus Heubeck.

(25) FINANCIAL LIABILITIES

Financial liabilities include all interest-bearing obligations in existence at the relevant reporting date. They consist of the following:

| in € thousand | 2006 | 2005 |
|----------------------------------|----------------|----------------|
| Long-term financial liabilities | 71,842 | 82,333 |
| Short-term financial liabilities | 85,123 | 55,679 |
| | 156,965 | 138,012 |

| in € thousand | 2006 | With a remaining term up to 1 year | 2005 | With a remaining term up to 1 year |
|-----------------------------|----------------|---|----------------|---|
| Due to banks | 147,604 | 84,673 | 127,999 | 55,196 |
| Other financial liabilities | 9,361 | 450 | 10,013 | 483 |
| | 156,965 | 85,123 | 138,012 | 55,679 |

Other financial liabilities include liabilities from finance leases totaling EUR 4,460 thousand (2005: EUR 5,472 thousand).

The tables below show the maturities and conditions of financial liabilities:

DUE TO BANKS

| Remaining term | 2006 | | 2005 | |
|-------------------|--------------------------------|----------------------------|--------------------------------|----------------------------|
| | Weighted average interest rate | Carrying amount € thousand | Weighted average interest rate | Carrying amount € thousand |
| up to 1 year | 3.81% | 84,673 | 2.29% | 55,196 |
| 1 to 5 years | 4.00% | 30,836 | 3.35% | 39,284 |
| more than 5 years | 5.66% | 32,095 | 5.67% | 33,519 |

OTHER FINANCIAL LIABILITIES

| Remaining term | 2006 | | 2005 | |
|-------------------|--------------------------------|----------------------------|--------------------------------|----------------------------|
| | Weighted average interest rate | Carrying amount € thousand | Weighted average interest rate | Carrying amount € thousand |
| up to 1 year | 5.39% | 450 | 5.40% | 483 |
| 1 to 5 years | 5.22% | 1,987 | 5.26% | 2,310 |
| more than 5 years | 5.12% | 6,924 | 5.12% | 7,220 |

(26) OTHER LIABILITIES

| in € thousand | 2006 | | | 2005 | | |
|----------------------|---------------|---------------------|--------------------|---------------|---------------------|--------------------|
| | | thereof: short-term | thereof: long-term | | thereof: short-term | thereof: long-term |
| Other liabilities | 68,985 | 35,695 | 33,290 | 60,798 | 38,486 | 22,312 |
| from taxes | [12,901] | [12,901] | 0 | [14,115] | [14,115] | 0 |
| from social security | [4,377] | [4,377] | 0 | [7,410] | [7,410] | 0 |
| | 68,985 | 35,695 | 33,290 | 60,798 | 38,486 | 22,312 |

In addition to liabilities for taxes and social security, other liabilities primarily include liabilities in connection with payroll accounting.

Other liabilities also include the negative market values of financial instruments totaling EUR 2,551 thousand (2005: EUR 1,500 thousand).

(27) TRADE PAYABLES

| 2006 | With a remaining term | | | Total |
|----------------|-----------------------|-------------------------|----------------------------|---------|
| | up to 1 year | from 1 to 5 years | of more than 5 years | |
| in € thousand | | | | |
| Trade payables | 103,135 | 0 | 0 | 103,135 |

| 2005 | With a remaining term | | | Total |
|----------------|-----------------------|-------------------------|----------------------------|--------|
| | up to 1 year | from 1 to 5 years | of more than 5 years | |
| in € thousand | | | | |
| Trade payables | 80,723 | 0 | 0 | 80,723 |

OTHER DISCLOSURES

(28) CONTINGENT LIABILITIES

No provisions have been recognized for the following contingent liabilities, which are recognized at nominal value since attendant risks are considered unlikely to materialize.

| in € thousand | 2006 | 2005 |
|---|-------|-------|
| Contingent liabilities from the provision of collateral for third-party liabilities | 2,242 | 1,315 |

(29) OTHER FINANCIAL OBLIGATIONS

| 2006 | Due 2007 | Due 2008 to 2011 | Due after 2011 | Total |
|---|---------------|------------------------|----------------------|----------------|
| in € thousand | | | | |
| Sum of future minimum lease payments (operating leases) | 71,042 | 227,342 | 153,504 | 451,888 |
| Other liabilities | 6,845 | 9,701 | 19 | 16,565 |
| | 77,887 | 237,043 | 153,523 | 468,453 |
| Purchase commitment for investments | | | | |
| Property, plant and equipment | 21,196 | | | 21,196 |
| Intangible assets | 12,995 | | | 12,995 |
| | 34,191 | 0 | 0 | 34,191 |

| 2005 | Due 2006 | Due 2007 to 2010 | Due after 2010 | Total |
|--|---------------|------------------------|----------------------|----------------|
| in € thousand | | | | |
| Sum of future minimum lease payments (operating leases) | 53,636 | 199,270 | 161,719 | 414,625 |
| Other obligations | 5,633 | 5,968 | 29 | 11,630 |
| | 59,269 | 205,238 | 161,748 | 426,255 |
| Purchase commitment for investments | | | | |
| Property, plant and equipment | 8,001 | | | 8,001 |
| Intangible assets | 6,015 | | | 6,015 |
| | 14,016 | 0 | 0 | 14,016 |

There will be no substantial future revenues for the Group arising from subleases.

(30) HEDGING POLICIES AND FINANCIAL DERIVATIVES

As a company with international operations, HUGO BOSS is subject to risks arising from movements in exchange rates and interest rates as a result of its ordinary business operations. Derivative financial instruments are employed to mitigate these risks. Only marketable instruments with adequate liquidity are used. The utilization of financial derivatives is subject to internal guidelines and controls at HUGO BOSS.

When using financial derivatives, HUGO BOSS is exposed to the risk of counterparty default. HUGO BOSS reduces this risk by confining such transactions exclusively to banks with very good to good credit ratings.

HUGO BOSS is represented by subsidiaries in its most important core markets. These subsidiaries sell products to local customers within a certain area. The subsidiaries place the orders arising from this business exclusively within the Group.

Intercompany orders are as a rule denominated in the local currency of the respective subsidiary in order to concentrate the exchange rate risk at HUGO BOSS AG in Germany. Currency exposures arise from cash flows denominated in the local currencies of subsidiaries and in euro (HUGO BOSS AG's functional currency) as well as in Swiss francs, the functional currency of HUGO BOSS Industries (Switzerland) Ltd. and of HUGO BOSS Shoes & Accessories S. A., Switzerland. Hedging transactions are undertaken centrally by the Group's Treasury Department.

HUGO BOSS makes use of financial derivatives in order to hedge part or all of the subsidiaries' anticipated payments against the above-mentioned currency exposure. This principally entails the use of forward exchange contracts and currency options.

In particular, HUGO BOSS hedges cash flows from countries in which it maintains extensive operations. These countries include the U. S., Japan, Great Britain, Switzerland, Canada and Australia.

Forward exchange contracts and currency options generally have terms ranging from 12 to 15 months from the contract date; none of the terms exceed 18 months. For the most part those cash flows result from intercompany sales anticipated to occur within 18 months.

HUGO BOSS holds the view that the use of currency derivatives reduces the risks described above and uses such instruments exclusively for hedging purposes.

The following table summarizes the nominal amounts and fair values of financial derivatives:

| in € thousand | 2006 | | 2005 | |
|----------------------------|----------------|--------------|----------------|--------------|
| | Nominal amount | Fair values | Nominal amount | Fair values |
| Currency hedging contracts | 110,424 | (884) | 100,940 | (949) |
| Interest hedging contracts | 26,576 | 21 | 29,598 | 189 |
| | 137,000 | (863) | 130,538 | (760) |

The nominal amounts shown reflect the total of sales and purchases.

Market values of financial derivatives are carried as other assets or other liabilities. They reflect no contrary movements in the value of the hedged item. Moreover, the market values do not necessarily represent the amounts that will be realized in the future under prevailing market conditions.

Moreover, other assets or liabilities include the market value of transactions designed to hedge interest rate risks valued at EUR 21 thousand (2005: EUR 189 thousand).

The market value of derivative financial instruments shown includes the amount of EUR –673 thousand (2005: EUR –358 thousand) from assets classified as financial assets held for trading.

The negative effects of the fair value measurement of derivative financial instruments totaling EUR –119 thousand (2005: EUR –690 thousand) were taken directly to equity as of December 31, 2006, after deduction of deferred taxes.

(31) NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement shows the changes that have occurred in cash and cash equivalents in the HUGO BOSS Group during the year under review in the form of cash inflows and outflows. In accordance with IAS 7, cash flows from operating activities, investing activities and financing activities are stated separately. The cash flow statement was prepared using the indirect method.

Cash flow from operating activities includes interest received in the amount of EUR 2,759 thousand (2005: EUR 1,905 thousand) and interest paid in the amount of EUR 7,650 thousand (2005: EUR 6,658 thousand). Income tax payments amount to EUR 53,620 thousand (2005: EUR 33,916 thousand).

Cash and cash equivalents as presented in the cash flow statement include all cash items reported on the balance sheet, i. e., cash on hand, checks, and bank balances.

(32) NOTES ON SEGMENT REPORTING

In segment reporting, the activities of the HUGO BOSS Group are differentiated by business area – i. e., product category – as the primary reporting format and by geographic area as the secondary reporting format in accordance with IAS 14.

HUGO BOSS business segments are based on the internal organization and reporting structure of the Company and thus consist primarily of the menswear and womenswear product lines. Secondary segmentation is based on geographic region.

For purposes of product segmentation, the BOSS Menswear and HUGO brands are combined under the menswear segment.

For purposes of geographical segmentation, external sales are assigned on the basis of the registered head office of the customer. In line with the organization's internal management and reporting structures, regions are defined as Germany, other European countries, Americas and Asia/other regions.

Segment information is based on essentially the same accounting policies as those applied in the consolidated financial statements.

(33) RELATED PARTY DISCLOSURES

In contrast to 2005, the companies of the Marzotto Group are no longer classified as related companies within the meaning of IAS 24 in the year under review.

In fiscal 2005, members of the Supervisory Board received royalties totaling EUR 813 thousand along with compensation for other services rendered, particularly consulting services, in the amount of EUR 200 thousand. No such payments were made to Supervisory Board members in fiscal 2006.

(34) SUPERVISORY AND MANAGING BOARDS

Members of the Supervisory and Managing Boards are listed on pp. 012 to 014.

Remuneration for members of the Managing Board in fiscal 2006 totaled EUR 5,342 thousand (2005: EUR 5,086 thousand). Of this amount, EUR 1,406 thousand (2005: EUR 1,798 thousand) reflect fixed components and EUR 3,936 thousand (2005: EUR 3,288 thousand) variable components.

The fixed salary components paid to members of the Managing Board comprise benefits such as company cars and benefits in kind as well as other equipment and services necessary for Management Board members to fulfill their duties.

The variable components consist partly of bonuses paid on the basis of the achievement of personal targets as agreed with the Supervisory Board for each Managing Board member and on the achievement of predefined corporate earnings targets.

Managing Board members are also granted stock appreciation rights to allow them to participate directly in the Company's long-term profits.

Option rights granted to members of the HUGO BOSS AG Managing Board under the stock appreciation rights plan were as follows:

| | Tranche no. 2 | Tranche no. 3 | Tranche no. 4 | Tranche no. 5 | Tranche no. 6 | Total |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------|
| Date of Issue | March 2002 | February 2003 | February 2004 | February 2005 | February 2006 | – |
| Number of option rights on outstanding on December 31, 2006 | – | – | 90,000 | 240,000 | 270,000 | 600,000 |
| Strike Price (EUR) | 23.63 | 9.71 | 16.93 | 25.01 | 33.01 | – |
| Value of option rights held by Managing Board | | | | | | |
| December 31, 2005 (EUR thousand) | 1 | 1,805 | 1,172 | 1,517 | | 4,495 |
| December 31, 2006 (EUR thousand) | – | – | 2,064 | 3,490 | 2,935 | 8,488 |

As a rule, contracts for Managing Board members have a term of five years. They do not contain any special provisions to cover early termination of the contract.

In addition to the remuneration specified above, the Company also provides pension benefits.

For the members of the Managing Board, provisions for pension obligations were recognized in the amount of EUR 7,927 thousand (previous year: EUR 4,599 thousand).

The Supervisory Board received total remuneration of EUR 1,241 thousand for its services (2005: EUR 1,152 thousand). This includes a variable component of EUR 486 thousand (2005: EUR 618 thousand) calculated on the basis of earnings per share.

Pension obligations to former members of the Managing Board decreased by EUR 150 thousand to EUR 7,709 thousand.

Members of the Supervisory Board hold a total of 0.16% of the shares issued by HUGO BOSS AG. Total holdings of members of the Managing Board amount to less than 0.01% of the shares issued by the Company.

(35) STOCK APPRECIATION RIGHTS PLAN

During 2001, HUGO BOSS AG introduced a stock appreciation rights plan for Managing Board members and second-tier executives.

As part of this plan, members of the HUGO BOSS AG Managing Board and certain other executives of HUGO BOSS AG and its subsidiaries are accorded a certain number of participation rights. These rights enable them to benefit from any increase in the value of the Company's shares. The participation rights solely confer a claim to payment in cash, not a claim to HUGO BOSS AG shares.

The stock appreciation rights plan has a term of four to six years. After the initial holding period of two years, the exercise period of two or four years commences. Participation rights may be exercised if growth in market capitalization of HUGO BOSS AG exceeds MDAX growth by 5 percentage points (exercise hurdle) upon expiration of the holding period or during the exercise period.

The payoff corresponds to the difference between the strike price and the market capitalization value as reflected in the average price of the relevant HUGO BOSS AG shares during the five trading days preceding the date of exercise. The strike price corresponds to the market capitalization value based on the average of the relevant shares, divided by the total number of HUGO BOSS AG shares during the 20 trading days preceding the date of issue.

The stock appreciation rights program developed as follows during 2006 and 2005:

| | 2005 | 2006 |
|------------------------------------|-------------|-------------|
| Number of option rights at Jan. 1 | 1,373,050 | 1,632,450 |
| Newly granted | 730,400 | 674,400 |
| Expired/exercised option rights | (471,000) | (544,950) |
| Number of option rights at Dec. 31 | 1,632,450 | 1,761,900 |

Anticipated future claims from the stock appreciation rights plan are covered by provisions. Based on the Black-Scholes option pricing model, the value of the stock appreciation rights issued is calculated based on current market parameters, and then allocated to the provisions on a pro rata basis until the end of the holding period. For fiscal 2006, this resulted in expenses of EUR 17,037 thousand (2005: EUR 9,609 thousand) for the stock appreciation rights plan.

(36) EVENTS AFTER THE BALANCE SHEET DATE

Since the balance sheet date (December 31, 2006), no events have occurred that have had a material impact on the Group's financial performance or financial position.

The consolidated financial statements and the Group management report of HUGO BOSS AG were authorized for issue to the Supervisory Board by the Managing Board on March 1, 2007. The consolidated financial statements were published on March 21, 2007.

(37) GERMAN CORPORATE GOVERNANCE CODE

The Managing Board and the Supervisory Board of HUGO BOSS AG have submitted the declaration of compliance prescribed by Section 161 of the German Stock Corporation Act (AktG). The declaration is available to shareholders on the Company's website.

(38) AUDITOR'S FEE

The auditor's fee expense for fiscal 2006 amounted to EUR 305 thousand. These payments relate exclusively to audit services for the companies included in the consolidated financial statements. No other audit services were rendered.

FURTHER INFORMATION

INFORMATION CONCERNING THE MAJORITY SHAREHOLDER

On October 17, 2005, HUGO BOSS AG received the following notification from V.F.G. International N.V., Amsterdam, The Netherlands, pursuant to section 21 of the German Securities Trading Act (WpHG) of March 12, 2003:

“Referring to our notification of March 12, 2003, we hereby inform you that on September 28, 2005 the Company has changed its name from Marzotto International N.V. to V.F.G. International N.V.

We continue to hold 78.76% of subscribed capital with voting rights.”

Metzingen, October 2005

The Managing Board

On July 6, 2005, HUGO BOSS AG received the following notification from the Valentino Fashion Group S.p.A., Milan, Italy pursuant to section 21 paragraph 1 and section 22 paragraph 1 no. 1 of the German Securities Trading Act (WpHG):

“We hereby inform you pursuant to section 21 paragraph 1 and section 22 paragraph 1 sentence 1 no. 1 of the German Securities Trading Act that our share of voting rights in HUGO BOSS AG exceeded the threshold of 5%, 10%, 25%, 50% and 75% on July 1, 2005, and now amounts to 78.76%.

As a result, 78.76% of voting rights are to be attributed to us pursuant to section 22 paragraph 1 sentence 1 no. 1 of the Securities Trading Act.”

Metzingen, July 2005

The Managing Board

FURTHER INFORMATION

ON SUPERVISORY BOARD AND MANAGING BOARD MEMBERS

The following members of our Supervisory Board also hold positions on bodies at the companies specified:¹

| | | |
|-----------------------------------|--|--|
| Gert Bauer | ElringKlinger AG | Dettingen/Erms, Germany |
| Philippe Bouckaert | Banque d'Orsay ³ | Paris, France |
| | Eurosofac | Paris, France, until October 18, 2006 |
| | Finanziaria Canova S. p. A. | Milan, Italy |
| Andrea Donà dalle Rose | Marzotto S. p. A. ³ | Milan, Italy |
| | Vincenzo Zucchi S. p. A. | Milan, Italy, until January 26, 2006 |
| | Jolly Hotels S. p. A. | Valdagno, Italy, until May 23, 2006 |
| | Cimas S. p. A. | Ponte Felcino, Italy |
| | Valentino Fashion Group S. p. A. ³ | Milan, Italy |
| | Linificio e Canapificio Nazionale S. p. A. | Fara Gera d'Adda, Italy, since May 10, 2006 |
| | Valentino S. p. A. | Milan, Italy, since May 9, 2006 |
| Fondo Pitagora | Rome, Italy, since October 9, 2006 | |
| Antonio Favrin | Valentino S. p. A. | Milan, Italy, Chairman until September 12, 2006 |
| | Marzotto S. p. A. ² | Milan, Italy |
| | Marzotto GmbH (in liquidation) | Frankfurt/Main, Germany |
| | Vincenzo Zucchi S. p. A. | Milan, Italy, until March 23, 2006 |
| | Mascioni S. p. A. | Milan, Italy, until May 5, 2006 |
| | Finanziaria Canova S. p. A. | Milan, Italy |
| | Linificio e Canapificio Nazionale S. p. A. ³ | Fara Gera d'Adda, Italy, until May 10, 2006 |
| | Jolly Hotels S. p. A. ² | Valdagno, Italy, Chairman since May 23, 2006 |

| | | |
|----------------------------------|---|---|
| Antonio Favrin | Portogruaro Interporto S.p.A. ² | Portogruaro, Italy |
| | Faber Finanziaria S.r.l. | Milan, Italy |
| | Canova Partecipazioni S.r.l. ² | Milan, Italy |
| | Joker Partecipazioni S.r.l. ² | Milan, Italy |
| | Grande Jolly S.r.l. | Milan, Italy, since November 29, 2006 |
| | V.F.G. Distribuzione S.p.A. ² | Milan, Italy, since September 12, 2006 |
| | Valentino Couture ² | Paris, France, since October 1, 2006 |
| | Valentino Hong Kong Ltd. | Hong Kong, China, since September 30, 2006 |
| | Valentino Spagna SL ² | Madrid, Spain, since September 30, 2006 |
| | Valentino Boutique Japan Ltd. | Tokyo, Japan, since September 20, 2006 |
| Reinhold L. Mestwerdt | Finanziaria Canova S.p.A. | Milan, Italy |
| | M CAP Finance GmbH & Co. KG | Frankfurt/Main, Germany |
| Dario Federico Segre | Marzotto S.p.A. | Valdagno, Italy, until May 12, 2006 |
| | Filos Partecipazioni Finanziarie S.r.l. ² | Milan, Italy |
| | Istifid S.p.A. | Milan, Italy |
| | Eidos Partners S.r.l. | Milan, Italy |
| | Aree Urbane S.r.l. | Milan, Italy, until May 2, 2006 |
| | Aperta Sgr | Milan, Italy, until February 28, 2006 |
| | Valdani Vicari e Associati | Milan, Italy |
| | Gefran S.p.A. | Provaglio d'Isseo, Italy |
| | Valentino Fashion Group S.p.A. | Milan, Italy |
| | Machi S.r.l. | Milan, Italy |

¹ The members not mentioned have no seats on executive or advisory bodies at any other companies.

² Holding the post of Chair.

³ Holding the post of Deputy Chair.

| | | |
|-----------------------------|--|--|
| Dario Federico Segre | Canova Partecipazioni S. r. l. | Milan, Italy |
| | Joker Partecipazioni S. r. l. | Milan, Italy, until November 22, 2006 |
| | Jolly Hotels S. p. A. | Valdagno, Italy |
| | Valentino S. p. A. | Milan, Italy, since May 9, 2006 |
| | Grande Jolly S. r. l. | Milan, Italy, since November 29, 2006 |
| Dr. Giuseppe Vita | Allianz Lebensversicherungs-AG | Stuttgart, Germany, until April 25, 2006 |
| | Riunione Adriatica di Sicurtà (RAS) S. p. A. ² | Milan, Italy |
| | Axel Springer AG ² | Berlin, Germany |
| | Deutz AG ² | Cologne, Germany, since June 22, 2006 |
| | Schering AG ² | Berlin, Germany, until September 13, 2006 |
| | Humanitas S. p. A. | Milan, Italy, formerly Techosp S. p. A. |
| | Vattenfall Europe AG | Berlin, Germany |
| | Marzotto S. p. A. | Valdagno, Italy, until May 12, 2006 |
| | Barilla S. p. A. | Parma, Italy |

The following member of our Managing Board also holds a position on a body at the companies specified:¹

| | | |
|------------------|-------------------|--|
| Dr. Bruno Sälzer | Beiersdorf AG | Hamburg, Germany, until July 31, 2006 |
| | TCHIBO Holding AG | Hamburg, Germany, since January 6, 2006 |

¹ The members not mentioned have no seats on executive or advisory bodies at any other companies.

² Holding the post of Chair.

³ Holding the post of Deputy Chair.

Metzingen, March 1, 2007

HUGO BOSS AG
The Managing Board

GENERAL INFORMATION

Our company's performance is best reflected in the consolidated financial statements. Like many other organizations, we have refrained from including the figures from the separate financial statements of HUGO BOSS AG in this report for the sake of clarity of presentation, as these statements continue to be prepared in accordance with the German Commercial Code (HGB). To receive a copy of the HGB statements, please contact:

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The financial statements of HUGO BOSS AG are published in the Electronic German Federal Gazette (eBundesanzeiger) and filed with the Commercial Registry at the Stuttgart Local Court.

Metzingen, March 1, 2007

HUGO BOSS AG
The Managing Board

Dr. Bruno Sälzer
Dr. Werner Lackas
André Maeder
Joachim Reinhardt

FORWARD-LOOKING STATEMENTS

CONTAIN RISKS

This document contains forward-looking statements that reflect management's current views with respect to future events. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should," and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement, which speaks only as of the date on which it is made.

CONTACTS

AT HUGO BOSS AG

FINANCIAL CALENDAR

| | |
|----------------|--|
| March 21, 2007 | Annual Press and Analyst Conference in Metzingen |
|----------------|--|

| | |
|----------------|-------------------------------------|
| April 26, 2007 | Report on the First Quarter of 2007 |
|----------------|-------------------------------------|

| | |
|--------------|---|
| May 10, 2007 | Annual Shareholders' Meeting in Stuttgart |
|--------------|---|

| | |
|-----------------|----------------------------------|
| August 01, 2007 | Report on the First Half of 2007 |
|-----------------|----------------------------------|

| | |
|-------------------|-------------------------------------|
| November 06, 2007 | Report on the Third Quarter of 2007 |
|-------------------|-------------------------------------|

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