HUGO BOSS

Annual Report 2004

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HUGO BOSS Ten-Year Summary

EUR mill.	2004 IFRS	2003 IFRS	2002 IFRS	2001 IFRS
Earnings Position				
Sales	1,168.4	1,054.1	1,093.4	1,094.7
Operating result	135.3	118.8	115.8	167.4
Net income	88.2	82.4	74.7	117.6
adjusted [1]	–	–	–	107.7
Personnel expenses	198.1	170.4	158.2	149.3
Employees [2]	6,942	5,110	4,600	4,234
Financial Status and Dividend				
Cash flow	119.9	111.9	105.1	150.6
adjusted [1]	–	–	–	140.7
Free cash flow before dividend	40.1	60.5	61.0	(46.8)[11]
Capital expenditures	57.3	46.3	68.4	95.6
Depreciation/amortization [3]	37.4	32.9	32.2	29.4
Dividend	59.4[8]	55.2	53.1	53.1
Special dividend	–	–	–	–
Asset and Liability Structure				
Total assets	801.3	754.5	760.4	756.8
Shareholders' equity [4]	422.0	399.5	385.2	375.3
Current assets	503.9	496.7	498.5	528.5
Non-current assets [5]	297.4	257.9	261.9	199.8
Key Figures				
Foreign sales in % [6]	75.0	75.2	74.8	72.9
EBIT margin in %	11.6	11.3	10.6	15.3
Return on sales after taxes in %	7.5	7.8	6.8	10.7
adjusted [1]	–	–	–	9.8
Return on equity in % [7]	21.0	20.4	18.9	30.9
adjusted [1]	–	–	–	28.3
Equity-to-assets ratio in %	52.7	52.9	50.6	49.6
Shares (in EUR)				
Dividend per share				
common stock	0.84[8]	0.78	0.75	0.75
preferred stock	0.85[8]	0.79	0.76	0.76
Special dividend per share				
common stock	–	–	–	–
preferred stock	–	–	–	–
Earnings per share [9]	–	–	–	–
common stock	1.24	1.16	1.05	1.52[1]
preferred stock	1.26	1.18	1.07	1.54[1]
Cash flow per share	1.70	1.59	1.49	2.14
adjusted [1]	–	–	–	2.00
Common stock [10]				
highest price	23.81	18.00	26.10	33.80
lowest price	16.05	8.10	7.60	13.70
Preferred stock [10]				
highest price	24.43	17.93	29.45	39.20
lowest price	15.85	8.48	8.20	15.10

1 Figures adjusted for the tax effect of the special dividend.
2 Average for the year acc. to HGB/capacities on the reporting date acc. to IFRS.
3 Including write-offs of financial assets.
4 Incl. 50% of special untaxed reserves.
5 Until 2001: Fixed assets.
6 Export share incl. foreign royalties income.
7 Net income in relation to the average shareholders' equity.
8 2004: Recommendation for dividend payment.

2001 HGB	2000 HGB	1999 HGB	1998 HGB	1997 HGB	1996 HGB	1995 HGB
1,094.7	923.4	752.9	683.6	581.0	508.9	460.6
162.0	163.5	109.8	96.1	89.7	66.4	58.5
106.6	109.0	56.5	49.7	42.1	38.9	29.7
–	99.1	–	–	–	33.2	–
149.7	123.1	100.5	91.7	80.4	76.3	71.3
4,240	3,394	2,581	2,195	2,055	2,147	2,104
141.9	125.7	73.0	63.8	57.6	49.6	36.6
–	115.8	–	–	–	43.9	–
(26.3)[11]	17.8	33.5	(2.6)[11]	18.8	22.5	46.5
73.7	36.6	46.9	29.8	43.9	17.7	11.6
30.6	22.8	19.4	13.3	12.0	8.9	6.5
53.1	49.5	28.4	24.8	20.9	15.0	13.7
–	43.9	–	–	–	18.7	–
661.7	501.2	369.5	333.5	297.2	248.6	215.9
320.9	305.4	223.0	185.7	160.1	146.7	121.6
485.1	370.2	260.4	248.8	225.5	207.4	180.8
159.5	115.8	100.6	81.3	68.0	37.8	32.9
71.6	69.5	63.6	61.7	63.5	64.0	62.1
14.8	17.7	14.6	14.1	15.4	13.1	12.7
9.7	11.8	7.5	7.3	7.2	7.6	6.4
–	10.7	–	–	–	6.5	–
33.2	41.3	27.6	28.8	27.4	29.0	26.3
–	37.5	–	–	–	25.3	–
48.5	60.9	60.4	55.7	53.9	59.0	56.3
0.75	0.70	0.40	0.35	0.29	0.21	0.19
0.76	0.71	0.41	0.36	0.30	0.22	0.20
–	0.62	–	–	–	0.27	–
–	0.62	–	–	–	0.27	–
1.52	1.33	0.85	0.71	0.66	0.50	0.45
–	–	–	–	–	–	–
–	–	–	–	–	–	–
2.02	1.79	1.04	0.91	0.82	0.71	0.52
–	1.65	–	–	–	0.62	–
33.80	29.50	12.70	18.45	11.16	9.18	6.02
13.70	10.20	9.26	10.23	8.13	5.58	4.60
39.20	38.50	14.30	19.99	11.95	9.30	5.72
15.10	10.56	9.53	10.97	8.37	5.59	4.29

9 2004–2001: based on IFRS; prior to 2001: based on DVFA/SG ("Deutsche Vereinigung für Finanzanalyse und Anlageberatung/Schmalenbachgesellschaft").

10 Frankfurt floor.

11 Negative amounts are shown in brackets.

Ladies and Gentlemen,

2004 was an eventful and successful year for HUGO BOSS. We attained 11% sales growth and a 7% rise in net income against a global fashion market that saw only limited growth of around 2%. In Germany, where HUGO BOSS generates 25% of its sales, we achieved 12% growth, while the German fashion market as a whole closed the year with another decline of approximately 2%.

Other key indicators also testify to our success: We posted a net sales return of 8% and a return on equity of 21% and the Group's equity-to-assets ratio now stands at 53%. Our preferred shares hiked up 54% and our common shares 47%, outperforming the DAX which added 7% and the MDAX which climbed 20%. At the end of the fiscal year, the Group's market capitalization amounted to EUR 1,687 million, an increase of EUR 566 million compared to fiscal 2003.

The integration of previously licensed products into our own business was concluded with the takeover of the product groups of shoes, knitwear, and leather accessories. Shoes have always been a key accessory for women, and they are becoming increasingly important as a fashion statement for men. Shoes are an important element of style and also serve to sharpen our brand profile. In order to take advantage of these benefits, we made new investments in our industrial structure in this segment and now employ nearly 700 workers in shoe production in Italy and Poland.

BOSS Woman has continued its dynamic growth, with sales increasing by 36% to EUR 69 million. Having implemented changes in its fashion statement, fit, quality of workmanship and pricing, BOSS Woman turned a profit for the first time. Our goal remains to develop women's fashion into a significant source of both sales and earnings over the medium term.

The expansion of our activities, particularly in the areas of leisure and sport, women's fashions, accessories and our own retail stores, has created new challenges for our corporate processes and the supporting IT systems. We have now embarked on the largest and most significant project of our corporate history, entitled "Columbus". The project aims to better respond to the various informational demands from the individual business segments throughout the entire process chain and to achieve considerable efficiency gains in all work flows.

Our positive corporate development is also evidenced by the increase in the number of our employees. In fiscal 2004, we created 1,832 new jobs in the Group, of which 124 are in Germany.

As an innovative and creative company, we aspire to leadership in our products and business processes as well as in our knowledge of markets and customers. We are confident that we will continue to fulfill this aspiration and to enhance the success of HUGO BOSS throughout 2005. Accordingly, we are forecasting sales growth in the high single digits when adjusted for currency effects, as well as a proportional rise in earnings.

On behalf of the Managing Board, I wish to thank all our employees for their dedicated and successful efforts, as well as our shareholders, customers and other business partners for their trust and support.

Regards

Bruno Sälzer
Chair of the Managing Board

Supervisory Board

Dr. Giuseppe Vita
Berlin
– Chair –

Antonio Favrin
Portogruaro, Venice
Chairman of the Board of Directors
Marzotto S.p.A., Valdagno (Italy)
– Deputy Chair since July 20, 2004 –

Werner Baldessarini
Riederich

Peter Haupt
Metzingen
Administrative staff member
– Employee Representative –

Jean F. de Jaegher
Brussels
– Deputy Chair until July 19, 2004 –

Roland Klett
Metzingen
Administrative staff member
– Employee Representative –

Dr. Pietro Marzotto
Valdagno, Vicenza
Member of the Board of Directors
(until June 14, 2004)
Marzotto S.p.A., Valdagno (Italy)
Member of the Supervisory Board
until July 26, 2004

Michele Norsa
Milan
General Manager of Fashion Division
Marzotto S.p.A., Valdagno (Italy)

Dario Federico Segre
Milan
Managing Director
Finanziaria Canova S.p.A., Milan (Italy)
Member of the Supervisory Board
since July 27, 2004

Antonio Simina
Metzingen
Tailor
– Employee Representative –

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, Shoes and
Leather Accessories,
Member of the Managing Board
since January 1, 2004

Jörg-Viggo Müller
Reutlingen
Responsible for Finance, Human Resources,
Administration and IT,
Member of the Managing Board
since April 1, 1993

Lothar Reiff
Reutlingen
Responsible for Creation and Licensing,
Member of the Managing Board
since January 1, 2002

André Maeder, Jörg-Viggo Müller, Dr. Bruno Sälzer, Dr. Werner Lackas, Lothar Reiff (left to right)

HUGO BOSS – Key Share Data

	2004	2003
Number of shares	**70,400,000**	**70,400,000**
common shares	35,860,000	35,860,000
preferred shares	34,540,000	34,540,000
Earnings per share in EUR		
common share	1.24	1.16
preferred share	1.26	1.18
Dividend per share in EUR[1]		
common share	0.84	0.78
preferred share	0.85	0.79
Year-end (12/31) share price in EUR[2]		
common share	23.45	15.90
preferred share	24.50	15.95
Share price in EUR[2]		
common share		
high	23.85	17.80
low	15.90	8.01
preferred share		
high	24.50	17.95
low	15.75	8.50
Market capitalization in EUR mill.		
high	1,701	1,258
low	1,114	581
Price-earnings ratio[3]		
high	19	15
low	13	7
Dividend yield[3]		
high	3.5%	4.4%
low	5.4%	9.3%

1 2004: Recommendation for dividend payment.
2 Xetra.
3 Based on maximum/minimum prices of preferred share.

Type of Share: No-par-value Shares

Security Code Number (WKN)
– common share: 524 550
– preferred share: 524 553

International Securities Identification Number (ISIN)
– common share: DE 000 524 55 00
– preferred share: DE 000 524 55 34

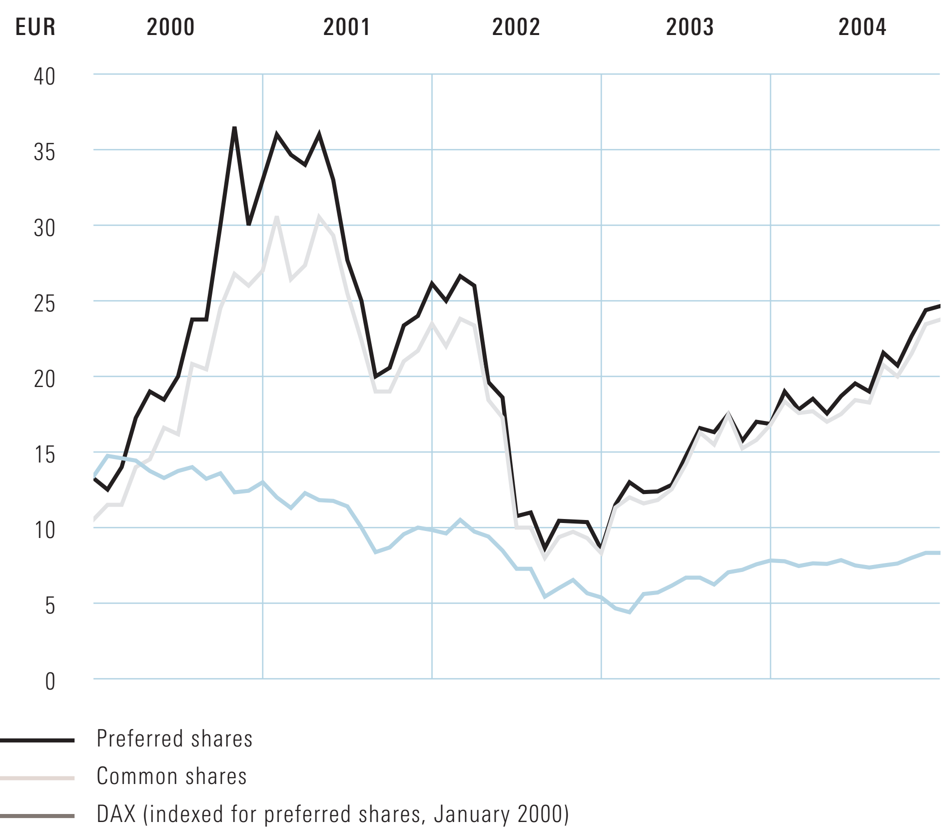
HUGO BOSS shares are traded on the following stock exchanges:
Xetra, Frankfurt, Stuttgart, Hanover, Duesseldorf, Hamburg, Munich, Berlin-Bremen (preferred shares only)

Investor Information

Stock performance in 2004

The Group's sales and earnings growth positively impacted its share price performance in 2004. Preferred shares rose by 54% to EUR 24.50 and common shares closed with a plus of 47% at EUR 23.45, significantly outperforming the major German stock indices, DAX 30 and MDAX. At the end of the fiscal year, the DAX closed just below its annual peak at 4,256 points, having climbed 7%. The MDAX, on which HUGO BOSS shares are included, closed at an annual high of 5,376 points (+20%).

Share Price Development



International stock markets mostly saw positive developments. The EURO STOXX 50 rose by 7%, the U.S. Dow Jones by 3% and the Nikkei in Japan by 8%.

Strong performance of preferred and common shares significantly enhanced the Group's corporate value in fiscal 2004. Market capitalization at the end of the fiscal year grew by EUR 566 million (+50%), to EUR 1,687 million (2003: EUR 1,121 million). In the ranking system of Deutsche Börse AG, which takes into account only the free float of our preferred shares with a market capitalization of EUR 634 million, HUGO BOSS ranks 28th place among MDAX shares, and 30th in terms of trading volume. An average of 1.99 million preferred shares and 436,000 common shares were traded each month in 2004. The lower trading volume of common shares reflects the smaller amount of free floating common shares compared to preferred shares.

Investor relations activities in 2004

HUGO BOSS continued to give high priority to investor relations during the course of 2004. As in the previous year, HUGO BOSS was ranked third among MDAX companies in a rating published by the German journal, “Focus Money”. Key to this distinction were the excellent ratings received for earnings strength and accounting transparency.

Our approach to capital markets communication is based on ongoing, up-to-date and comprehensive information about corporate developments. In-depth reports on current issues and the future potential of the HUGO BOSS Group were provided in regular conference calls, which can be accessed from the investor relations pages of our website. In addition, our analyst conference informed the general public about our 2003 results. Management presented the Company to both institutional and private investors in a number of meetings, a variety of investment conferences in Germany and abroad, as well as at some 20 international road shows.

The Annual Shareholders’ Meeting held on May 18, 2004 was the most important investor relations event of the year, particularly for private investors, with 68% of equity ownership represented (2003: 69%). All topics submitted for voting at the Annual Shareholders’ Meeting were approved by the required majority.

Internet information

We expanded the range of offerings on our corporate website in order to ensure open and transparent financial communication for all investors. Information on the Company, such as quarterly reports, press releases, the financial calendar, and the current company profile can now be retrieved immediately after publication on the investor relations pages of our website. Recordings of analyst meetings and conference calls are also accessible to all interested parties on our website.

HUGO BOSS also takes advantage of new formats to communicate with the capital markets. Selected pages of the annual report are available in interactive form in addition to complete PDF downloads. This allows fuller exploitation of opportunities offered by the Internet for communicating with private and institutional investors.

Stable shareholder structure

The Marzotto Group's share of HUGO BOSS AG stock remained unchanged at 50.9% (35,854,128 shares). The Marzotto Group holds 78.8% of common stock (28,242,128 shares) and 22.0% of 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 Marzotto Group, we are not aware of any other shareholders exceeding a threshold of 5% of the capital of HUGO BOSS AG. Notable blocks of shares are held by major institutional investors in North America, Great Britain, Switzerland and Germany.

Corporate Governance at HUGO BOSS AG

Application of the German Corporate Governance Code at HUGO BOSS AG

Effective implementation of corporate governance is an important element of corporate policy at HUGO BOSS. Transparent and responsible corporate leadership is a prerequisite for achieving corporate goals and sustained increases in corporate value. 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.

Prior to adopting the German Corporate Governance Code, HUGO BOSS had already implemented the majority of its recommendations. The amendments to the Company Statutes passed on May 27, 2003 created the framework for applying most of the recommendations under the Corporate Governance Code.

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 of the Code)

  As of December 31, 2004, 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. On December 19, 1985, only non-voting preferred shares were initially issued. 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, Para. 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 6 and 7 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 of 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.

– “Compensation of the members of the Management Board shall be reported in the Notes of the Consolidated Financial Statements, subdivided according to fixed, performance-related and long-term incentive components. The figures shall be individualized.” (Section 4.2.4 of the Code)

and

– “The compensation of the members of the Supervisory Board shall be reported in the Notes of the Consolidated Financial Statements, 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 Notes to the Consolidated Financial Statements.” (Section 5.4.5, Para. 3 of the Code)

  During the past fiscal year, HUGO BOSS AG again took advantage of the opportunity of calling upon the experience of Supervisory Board members on special topics. This cooperation was performed under conditions customary in the industry, which would also apply to comparable transactions with third parties.

  A detailed disclosure of the individual amounts would not be relevant to the capital markets.

  Moreover, it has been observed that individual disclosure may lead to a leveling of compensation among members of the Managing Board. This would not be in the interest of the Company and its shareholders.

- "The shareholdings, including options and derivatives, held by individual 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, Para. 2, Sentence 2 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 of acquisition or sale of the shares or related acquisition or sale rights on the part of members of the Managing or Supervisory Boards. Legislators have weighed the interests of the capital markets against data protection rights. However, Section 6.6, Para. 2, Sentence 2 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, Para. 2, Sentence 3 of the Code on shareholder information, are sufficient.

- "The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period." (Section 7.1.2)

  Due to long-term scheduling considerations, the 2003 consolidated financial statements were published after 91 days. This is within the legally stipulated time frame, but not within that recommended in Section 7.1.2 of the Code.

Declaration of the Managing Board and Supervisory Board of HUGO BOSS AG pursuant to section 161 AktG (German Stock Corporation Act)

HUGO BOSS Aktiengesellschaft, 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 May 21, 2003 – officially published in the electronic Federal Gazette on July 4, 2003 – since the Compliance Declaration of December 2003 have been and are generally complied with. During the reference period section 7.1.2 was partly adopted as the annual financial statements were published on April 1, 2004. The recommendations based on section 2.1.2, 3.8 paragraph 2, 4.2.3 sentence 6 and 7, 4.2.4, 5.4.5 paragraph 3 and section 6.6 paragraph 2 sentence 2 have not been and are not complied with.

Metzingen, December 2004

The Managing Board The Supervisory Board

The HUGO BOSS Group

The Group

The HUGO BOSS Group has maintained its position as global market leader in the high fashion market for many years. This success is based on a number of factors.

We employ a staff of dedicated experts at all of our administration, production and sales locations. Our employees act with a sense of responsibility in representing Company interests both internally and externally, guaranteeing efficient and professional business processes worldwide.

Our reliable international product distribution has been built on a global sales network that interacts smoothly with the Company's sophisticated logistics and standardized product presentation. Stringent marketing measures have led to worldwide recognition and a strong image for our brands and the Company.

Our long experience in the international fashion market is reflected in our high level of product competence. The fashion statements made by our collections succeed in capturing new trends each season. High-quality products with a value for money ratio have contributed to our status as a credible manufacturer and trustworthy partner. Fashion created for a variety of target groups, to meet the most exacting demands and for any occasion, gives customers all over the world confidence in their appearance.

Brand profiles

HUGO BOSS is represented in the fashion market by three independent brands: BOSS, HUGO and BALDESSARINI.

These three brands and their extensive collections allow us to address a variety of target groups, catering to the demands of each with respect to fashion statement, tailoring, workmanship, materials and pricing so that our customers, both male and female, are able to find the perfect outfit for every occasion.

Brand overview

	Men	Women
BOSS	BOSS HUGO BOSS BOSS HUGO BOSS SELECTION BOSS HUGO BOSS BOSS HUGO BOSS	BOSS HUGO BOSS
HUGO	HUGO HUGO BOSS	HUGO HUGO BOSS
BALDESSARINI	Baldessarini BALDESSARINI	

BOSS

Our core brand, BOSS, encompasses the women's collection of BOSS Woman and the labels of BOSS Black, BOSS Selection, BOSS Orange and BOSS Green for men.

BOSS Woman

The BOSS Woman customer is cosmopolitan, expresses her individual style with confidence and uses fashion to emphasize her multi-faceted personality. This attitude is reflected in the BOSS Woman collection: modern, well-made with a comfortable fit, high quality of materials and workmanship, feminine cuts and matter-of-fact elegance, refined yet natural details, as well as individual outfits that can be easily combined for any occasion.

BOSS Black

Fashion should mirror and emphasize the wearer’s personality, not constrict or conflict with it. BOSS Black meets these requirements by providing the appropriate outfit for any occasion, with perfect fit, sophisticated tailoring and superior quality. Whether the look is traditional business or casual leisure, the BOSS Black men's collection gives the wearer the confidence that goes along with being well-dressed at all times. This collection is complemented by a broad range of trendy fashion accessories.

BOSS Selection

Pure comfort created by a love of detail awaits the most demanding connoisseur. BOSS Selection combines the traditional strengths of BOSS in tailoring and fit with the finest fabrics and excellent quality. Superior workmanship, which also entails some handwork, creates clothing targeted specifically for the top end of the market. BOSS Selection exemplifies the pinnacle of quality.

BOSS Orange

Unusual fabrics, strong colors and elaborate details are characteristics of the BOSS Orange collection. The BOSS Orange customer is a sporty type who appreciates the BOSS standard of high quality materials and workmanship for non-business wear and who wants to make a fashion statement.

BOSS Green

The BOSS Green collection offers the athletic, fashion-conscious customer fully coordinated outfits for the perfect look both during sports activities and afterwards. New fabrics that are breathable, heat insulating and water resistant meet the high functional demands of a variety of outdoor sports and the latest leisure activities. During the design phase, athletes sponsored by HUGO BOSS test many of the items in the BOSS Green collection, including wearing the clothes in competitions.

HUGO

The trendy HUGO label combines young classic styles with chic sportswear, creating looks that are both casual and stylish. Form-fitting cut, high-quality materials and exceptional details that add fashionable accents make HUGO the label for individualists seeking to express their own personal style. HUGO customers are self-confident men and women who are not afraid to cross boundaries, who are open to new experiences and for whom fashion is a question of attitude, not age.

BALDESSARINI

In 2004 the BALDESSARINI GmbH & Co. KG was established as a business unit that focusses exclusively on the BALDESSARINI brand. Since 2004, the BALDESSARINI logo does not include the name HUGO BOSS. In Munich, BALDESSARINI benefits from greater proximity to customers and the media, a key advantage for communicating and positioning BALDESSARINI as an independent luxury brand in the relevant market environments.

BALDESSARINI represents the highest level of fashion luxury. The use of premium materials combined with meticulous, mainly hand workmanship characterizes the uniqueness of the BALDESSARINI collection. Quality takes top priority, and the BALDESSARINI signature is unmistakable. In addition to clothing, the collection also includes shoes, fragrances, and highlights from other accessory areas.

Product portfolio

The various labels of HUGO BOSS with their individual styles offer demanding customers of either gender classic ready-to-wear ensembles, leisure fashions, functional sportswear and complementary accessories. HUGO BOSS has rounded out the collections by integrating shoes and leather products into the Group's own business. Licensed products such as fragrances and cosmetics as well as watches and eyewear complement our outfits. In addition, we offer a comprehensive array of merchandising items, including jewelry and lifestyle accessories.

Creation and production

The creative process of designing new collections takes place at our Metzingen headquarters. Special fabrics and materials as well as new manufacturing technologies are developed exclusively for HUGO BOSS, attesting to the importance the Group places on innovation. For instance, a completely new manufacturing approach was implemented for the BOSS Selection line, in part using machinery under patent protection.

After researching international trends, our creative teams produce up-to-date fashion designs according to a four-season cycle. Patternmakers then transform these ideas into prototypes with the help of modern software. Sample collections are displayed in the showrooms and manufactured in series after our trading partners have signed their orders.

Production Planning in Metzingen prepares the process in detail and assists in implementation. Finally, on their journey from the various HUGO BOSS production facilities to the retail market, the collection items undergo a wide range of quality tests performed by staff experts.

Distribution

HUGO BOSS products are available throughout the world in 102 countries and more than 5,000 retail shops. These include flagship stores, freestanding stores, shop-in-shops and traveler shops run by franchisees or directly by HUGO BOSS. Business-to-business activities using integrated IT systems enable an efficient exchange of data with our customers as well as smooth, flexible and prompt coordination of seasonal deliveries.

Modern warehousing and materials handling technology in the distribution centers contributes to efficient product flow management along the entire process chain. This ensures optimum processing, from the procurement of raw materials up to delivery of the finished product to the customer.

Sales teams in Metzingen and in 15 subsidiaries are available to assist our trading partners. Our globally uniform shops are designed to match our corporate identity. We ensure this by using our own in-house teams of architects and merchandisers that also assist our trading partners by offering professional advice ranging from shop planning and implementation to the design of store windows and product displays or the organization of special retailer events.

We place great value on in-house training and continuing education of sales personnel and offer trainings covering both in-depth information on production and quality characteristics as well as collection statement briefings and information concerning the HUGO BOSS corporate identity and our customer service.

Communication

Corporate and brand communication at HUGO BOSS is coordinated at our headquarters in Metzingen and supported by in-house PR offices at the subsidiaries and international agencies.

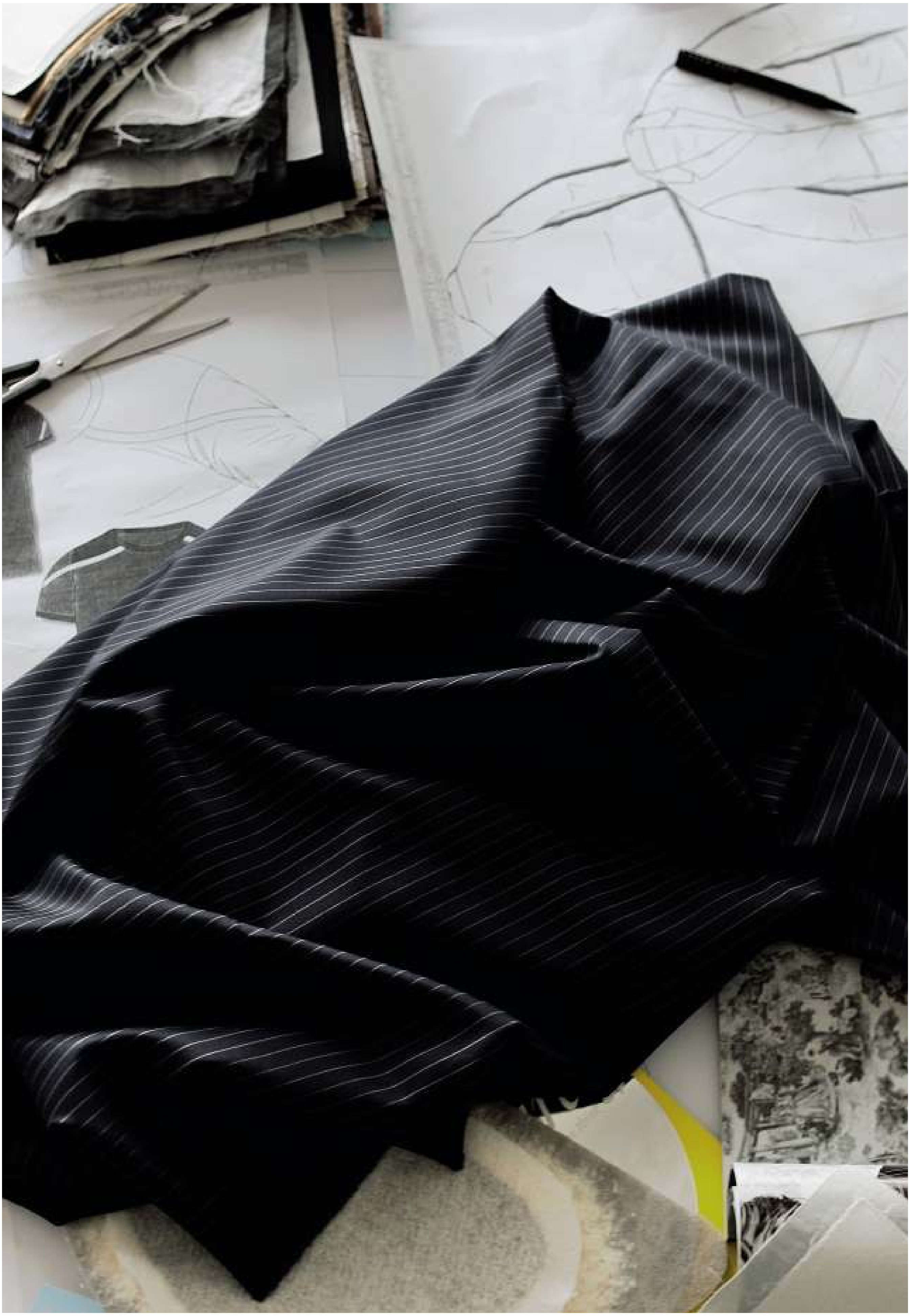
Interviews, reports and publications providing information on HUGO BOSS appeared in business and financial journals as a result of our worldwide press efforts. In addition, events such as press conferences and the Annual Shareholders' Meeting are significant publicity tools. Another key task of Corporate Communications is to develop and maintain a corporate identity in order to assure a uniform image for all of the Group's activities.

Our brand communication is reflected in different areas. Seasonally-changing advertising campaigns enhance brand recognition and image. The corresponding media planning and analysis, as well as the choice of media, is coordinated in Metzingen for more than 100 countries. Our products are presented in editorials and photo series in leading fashion and lifestyle magazines. Placing products in major film productions, outfitting celebrities with HUGO BOSS collection items, and holding international fashion events serve to emotionally charge the brand.

The extensive internet presence of HUGO BOSS is another key communication instrument. Our website, designed with the latest technology, offers detailed, up-to-date information on HUGO BOSS, its brands and individual products in a surrounding that is characterized by a high level of user friendliness and interactivity.

Sponsorship is an essential part of communication at HUGO BOSS. Cultural sponsorship links the aesthetic values of art with the HUGO BOSS label in a striking manner, while sports sponsorship allows us to associate the BOSS brand with qualities such as internationalism, success and dynamism.

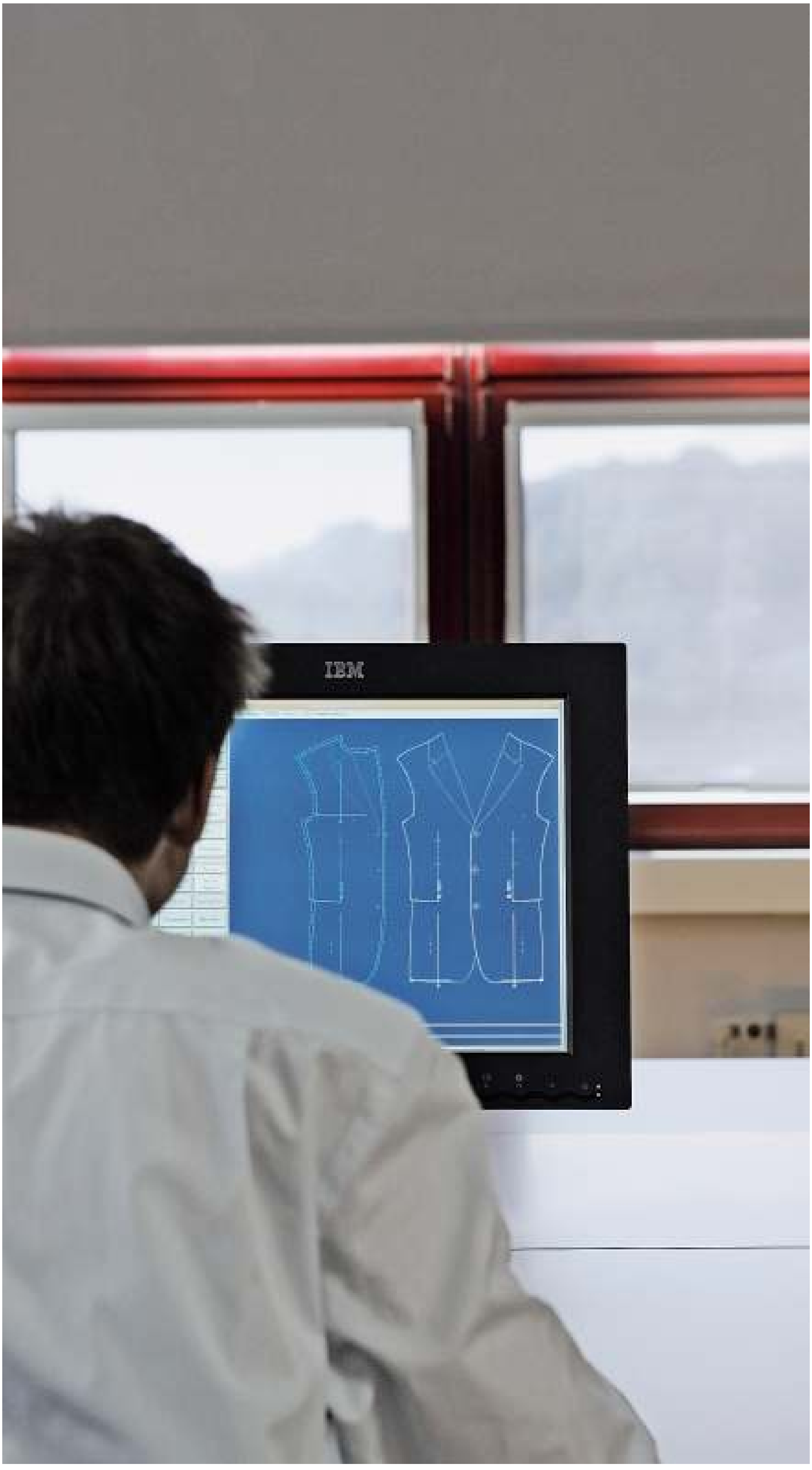
THE MAKING OF A SUIT



HUGO BOSS is synonymous with innovation, outstanding quality and a perfect fit. Consistently attaining these standards demands professional excellence at every step of the process: from the initial product idea all the way to the customer.

CREATIVE EVOLUTION

In the beginning is the idea. This is then refined by the HUGO BOSS Creative Team's designers and developed by the model makers into a sophisticated prototype. Because fit is a top priority for HUGO BOSS.



FIT

Once a model has been approved for production, modern CAD technology is leveraged to produce a suit pattern that is then implemented directly in the production process.

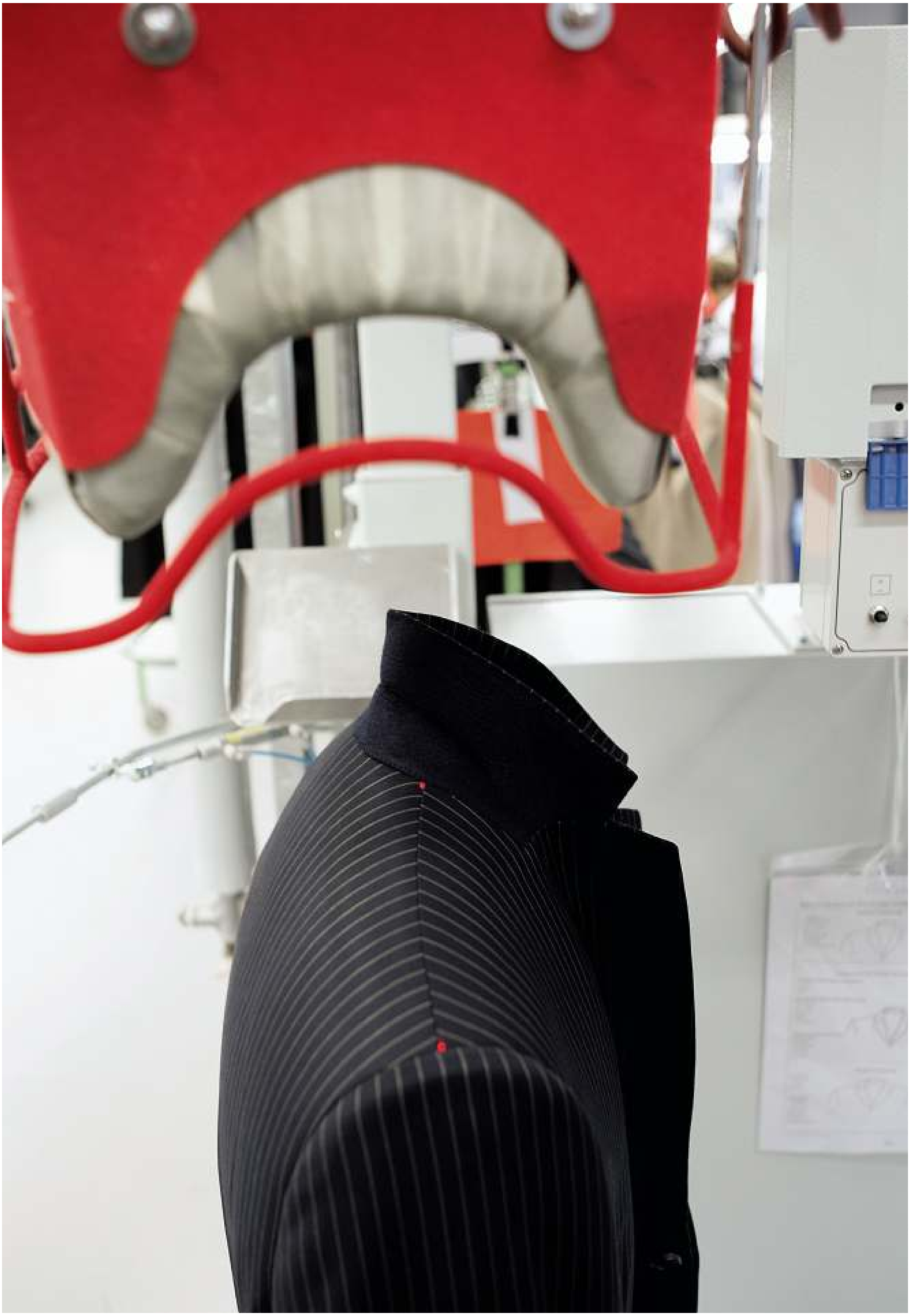
PRODUCTION


The Technology & Service Center in Metzingen specializes in extending expertise, producing custom articles and making prototypes. In this 65,000 sq. ft. facility, more than 300 staff produce the 150,000 individual parts that go into making classic menswear every year.

PRODUCTION

A single suit takes an average of 230 minutes to produce and involves some 200 pairs of hands.
A total of 120 parts are processed using 2,300 feet of yarn in up to 280 individual steps.

PRODUCTION



Creating a HUGO BOSS suit entails the interplay of technology and handcrafting; this guarantees outstanding quality and good value for money.

LOGISTICS

Each suit is subjected to quality control before leaving production for one of the distribution centers in the Metzingen area. There the pieces are automatically sorted for further distribution using advanced technology.

TRANSPORT

HUGO BOSS stands for modern logistics that ensure the efficient delivery of products to more than 5,000 points of sale in 102 countries. Our distribution centers handle an annual throughput of well over 20 million articles of clothing.

POINT OF SALE

Our shops consistently welcome customers with appealing visual merchandising and a sophisticated atmosphere. At locations around the world – whether in Shanghai, New York, Paris, or one of the many other cities that are home to a HUGO BOSS POS.

CUSTOMERS

HUGO BOSS customers can be confident of knowing they are always impeccably dressed. This strategy has enabled us to convince millions of consumers worldwide of the value and quality of our products – and to further extend our market leadership.

Report of the Managing Board on the 2004 Fiscal Year and Outlook for the Year 2005

Sales by Brand

	2004 EUR mill.	2003 EUR mill.	Change in %
BOSS	1,044.5	941.0	11
Man	975.2	890.2	10
Woman	69.3	50.8	36
HUGO	106.6	94.3	13
BALDESSARINI	17.3	18.8	(8)
Total	**1,168.4**	**1,054.1**	**11**

Sales by Region

	2004 EUR mill.	2003 EUR mill.	Change in %
Germany	292.2	261.4	12
Other European countries	519.0	451.5	15
Americas	205.1	186.7	10
Asia/other regions	111.7	101.3	10
Royalties	40.4	53.2	(24)
Total	**1,168.4**	**1,054.1**	**11**

Sales by Quarter

	2004 EUR mill.	2003 EUR mill.	Change in %
First quarter	357.3	340.3	5
Second quarter	196.9	167.5	18
Third quarter	392.7	353.7	11
Fourth quarter	221.5	192.6	15
Total	**1,168.4**	**1,054.1**	**11**

This page is not part of the management report.

Report of the Managing Board

General economic development

The positive trend which emerged at the end of 2003 continued in 2004. The world economy grew steadily in the first half of the year, but lost momentum over the course of the second half, mainly due to high oil prices. This resulted in sustained cost increases and consequently caused a considerable drop in purchasing power in domestic households. According to preliminary estimates by the "Organization for Economic Cooperation and Development" (OECD), real economic growth in 2004 should be close to 3.9%. This would signify the highest growth in the gross world product since 2000.

The share of the typical industrialized countries in the gross world product was lower in 2004 than in the past, while the emerging markets composed of the upcoming economies primarily in Southeast Asia saw exceptionally high growth rates. China's gross national product rose by 9.0%, according to OECD and International Monetary Fund (IMF) estimates. By contrast, the Japanese economy grew a mere 2.6%. According to the fall survey of German economic institutes, East Asian economies grew in total by 5.4%.

Russia's economy showed a positive trend in 2004, with economists anticipating a 7.0% growth rate.

Despite weakness in growth in the second half of the year, the U.S. economy still grew by 4.4% in 2004 according to the OECD (2003: 3.0%). The Canadian economy in comparison grew by 3.0% in 2004 (2003: 2.0%).

The euro-zone countries also experienced an economic upswing in the period under review. Growth levels were low, however, compared to trends in the emerging markets and North America. Estimates from the fall survey of the most important German economic institutes indicate that economic performance in the European Union countries grew a moderate 2.4%, after growth of only 1.0% in the previous year.

In Germany, the economy brightened considerably during 2004, with an increase of 1.7% in contrast to the zero growth of the previous year. Given only slightly higher private consumption, which suffered from higher energy costs in comparison to the prior year, Germany benefited from a growing world economy with a rise in exports. Holiday shopping fell short of expectations in the German retail business. Despite the fact that there was one more shopping day in December 2004, sales fell by a nominal 2.3% (real decrease: 2.7%) in comparison with December 2003. Retail sales in 2004 as a whole were 1.7% below the previous year's figure.

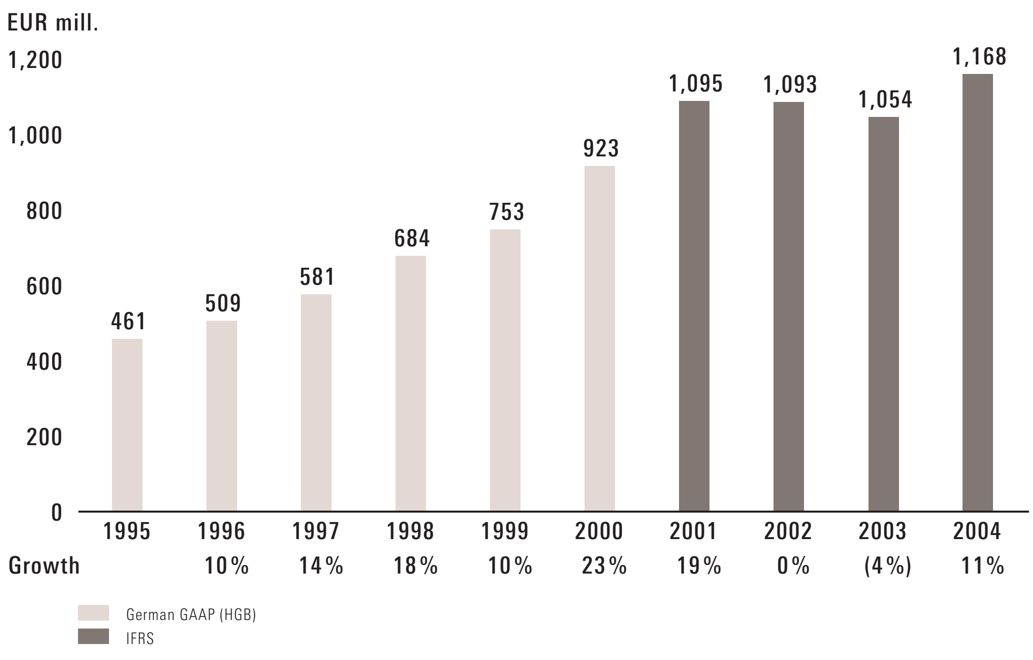
Sector developments

Sales in the German retail fashion sector declined by 2% in 2004 after a decline of 5% in 2003. Since the number of units sold in 2004 remained at about the same level as in 2003, the drop in sales resulted from a decrease in the average price per article sold. Low initial prices, the growing importance of lower-priced own label brands, and the persistent and aggressive price competition involving rebates and special offers are the major factors for the price decline in the German fashion retail market.

By contrast, the other major international fashion markets have, as a whole, shown slightly positive performance, particularly the U.S. market which grew by 6%.

Group sales rose by 11%

Development of Group Sales



The HUGO BOSS fashion group successfully concluded 2004 with double-digit sales growth. The positive sales trend which became apparent at the beginning of 2004 continued throughout the year.

Sales increased by 11% to EUR 1,168 million (2003: EUR 1,054 million), reflecting a double-digit percentage rise in all key regions.

The product lines of socks, bodywear and knitwear, integrated during fiscal 2003, as well as the product groups shoes and leather accessories taken over in January 2004, played an integral role in this successful sales growth. These product groups contributed approximately 4% to sales growth.

Over the course of 2004 other currencies, particularly the dollar, continued to lose ground against the euro. The weak pound also had a negative impact on our results. Adjusted for currency effects, Group sales increased by 13%.

German sales climbed by 12%

Throughout 2004, HUGO BOSS managed to distance itself from the ongoing declining trends in the German fashion market with its BOSS, HUGO and BALDESSARINI collections.

In Germany, the Group's largest single market, total sales increased by 12% to EUR 292 million in 2004 (2003: EUR 261 million).

BOSS Woman stood out as one of the most successful women's collections in Germany in the year under review; the sales plus of 45% testified to the success of the relaunch. Along with the integration of the product lines of shoes and leather accessories, BOSS Woman contributed substantially to the Group's strong sales development.

European sales up by 15%

Sales Other European Countries

	2004 EUR mill.	2003 EUR mill.	Change in %
France	99.2	97.0	2
Great Britain/Ireland	85.2	69.2	23
Benelux	83.0	65.6	27
Italy	49.4	45.8	8
Switzerland	26.5	23.8	11
Spain	34.0	27.7	23
Rest of Europe	141.7	122.4	16
Other European countries	**519.0**	**451.5**	**15**
in % of total sales	44	43	

Total sales in Europe, excluding Germany, rose from EUR 452 million to EUR 519 million (+15%) in fiscal 2004.

In the Benelux countries sales were up by 27% to EUR 83 million (2003: EUR 66 million), while sales in Spain climbed by 23% to EUR 34 million (2003: EUR 28 million). In France, the declining sales trend during the course of 2004 reversed at the end of the year, and total sales rose by 2% to EUR 99 million (2003: EUR 97 million). In the United Kingdom and Ireland, sales increased by 23% (currency-adjusted: 21%) to EUR 85 million (2003: EUR 69 million).

Americas

Sales Americas

	2004 EUR mill.	2003 EUR mill.	Change in %
USA	147.4	132.4	11
Canada	39.7	36.6	8
Mexico	12.8	11.9	8
Brazil	1.1	2.8	(61)
Rest of Americas	4.1	3.0	37
Americas	**205.1**	**186.7**	**10**
in % of total sales	18	18	

HUGO BOSS was able to boost currency-adjusted sales in North and South America by 20% in 2004. In the Group's reporting currency, euro, sales also rose considerably. On the American continent, sales grew by 10% to EUR 205 million (2003: EUR 187 million).

In the United States, HUGO BOSS took advantage of the strong consumer market and drove up sales significantly even against the weakening U.S. dollar. Sales surged by 23% in U.S. dollar terms. Sales in euro rose by 11% to EUR 147 million (2003: EUR 132 million) in fiscal 2004.

Canada continued the strong sales performance in 2004, posting 8% growth in the Group's reporting currency to EUR 40 million (2003: EUR 37 million). Currency-adjusted sales grew by 11%.

Sales in Central and South America grew by 2% (16% in local currencies) to EUR 18 million in 2004 (2003: EUR 18 million).

Significant sales growth in Asia/other regions

Sales Asia/other regions

	2004 EUR mill.	2003 EUR mill.	Change in %
Japan	34.8	29.0	20
Australia	17.1	16.8	2
People’s Republic of China	21.5	16.3	32
Other countries	38.3	39.2	(2)
Asia/other regions	**111.7**	**101.3**	**10**
in % of total sales	10	10	

As expected, HUGO BOSS achieved double-digit sales growth during fiscal 2004 in the growth region of Asia/other regions, bringing up sales by 10% to EUR 112 million (2003: EUR 101 million). Currency-adjusted sales improved by 15%.

In Japan, the positive sales trend continued during 2004. Sales rose by 20% to EUR 35 million (2003: EUR 29 million).

China’s sales increase of 32% to EUR 22 million (2003: EUR 16 million) highlights this country’s current position as the most important growth market after the United States.

Royalties

Royalties

	2004 EUR mill.	2003 EUR mill.	Change in %
Royalties textile	0.9	8.2	(89)
Royalties non-textile	39.5	45.0	(12)
Royalties	**40.4**	**53.2**	**(24)**

Royalties fell by 24% to EUR 40 million (2003: EUR 53 million) in 2004 as a result of the integration of the product lines of socks, bodywear and knitwear that were previously licensed out. The product groups of shoes and leather accessories were incorporated into the business after the takeover of the former M.H. shoes & accessories AG (now HUGO BOSS Shoes & Accessories AG), effective January 1, 2004.

The integration of the textiles product group, carried out in 2003, contributed only low residual royalties in fiscal 2004 from the settlement of remaining accounts.

Despite a small number of product launches in 2004, fragrance royalties showed an increase of 7%. Eyewear royalties, in contrast, developed very positively compared to 2003 with a rise of 21%. Royalties from watches, however, fell significantly due to a change in licensee.

Total royalties from fragrances, eyewear and watches, which continue to be licensed out, increased by 4%.

Brand sales: EUR 1.5 billion

Total sales for 2004 achieved by HUGO BOSS products worldwide ("brand sales") are calculated by adding sales of HUGO BOSS licensees to HUGO BOSS sales excluding royalties. Brand sales rose by 6% to EUR 1,549 million.

BOSS Man

BOSS Man is the core brand of the HUGO BOSS Group with 83% of total sales (2003: 84%). Despite weak consumer markets in key countries such as Germany and France, sales rose by 10% to EUR 975 million (2003: EUR 890 million) in fiscal 2004.

In Germany in particular, BOSS Man was able to buck the trend with a sales rise of 11% in a persistently weak fashion market.

Upmarket casualwear developed particularly strongly, increasing by 11% to EUR 409 million (2003: EUR 368 million), lifting the share of casual clothing of total sales in the BOSS Man segment to 42%.

Total businesswear sales grew by 8% to EUR 566 million in 2004 (2003: EUR 522 million).

BOSS Woman

The rise in sales of 36% to EUR 69 million (2003: EUR 51 million) testified to the success of the relaunch of this brand. As anticipated, the collection's high sales levels allowed BOSS Woman to reach the break-even point.

HUGO

HUGO, the trendier label in the HUGO BOSS portfolio, is sold in 43 countries. With sales growth of 13% to EUR 107 million (2003: EUR 94 million), HUGO managed to strengthen its market position in the major fashion markets.

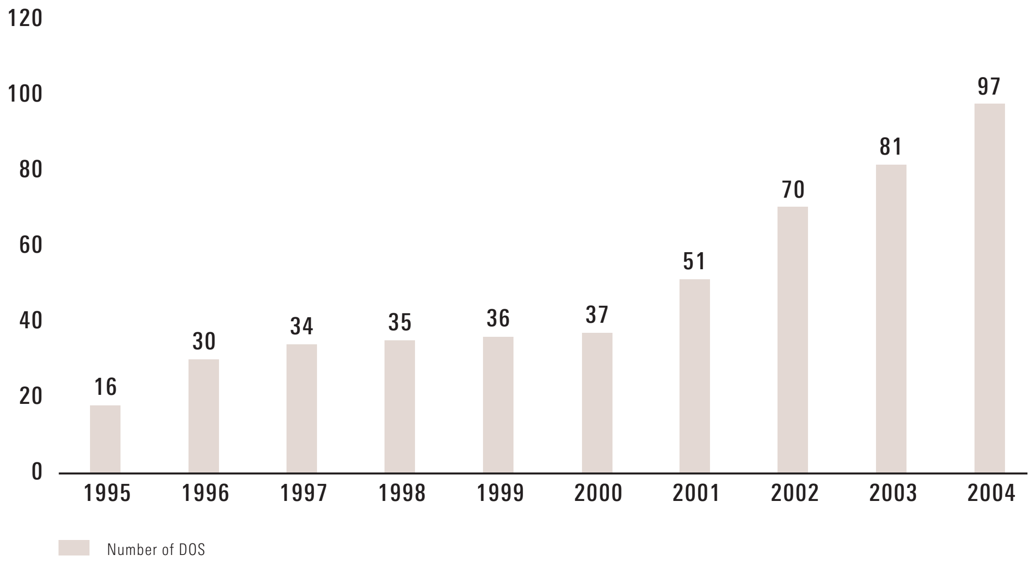
BALDESSARINI

The year 2004 was marked by a redirection for the luxury label BALDESSARINI. In the future, the brand will be presented worldwide as a designer label and sold selectively in the top end of the retail market.

BALDESSARINI sales in fiscal 2004 declined by 8% to EUR 17 million (2003: EUR 19 million) as a result of the weak environment in both key BALDESSARINI markets, Germany and France, and the adoption of the label's new orientation.

Sales growth in the DOS channel

Development of Directly Operated Stores (DOS)



HUGO BOSS continued to expand the use of Directly Operated Stores (DOS) as a distribution channel in 2004 as planned. There are now 97 HUGO BOSS shops worldwide (2003: 81), 35 of which are freestanding stores and 62 shop-in-shops.

The opening of the new HUGO BOSS flagship store on the Champs Elysées in Paris in November was a highlight of 2004.

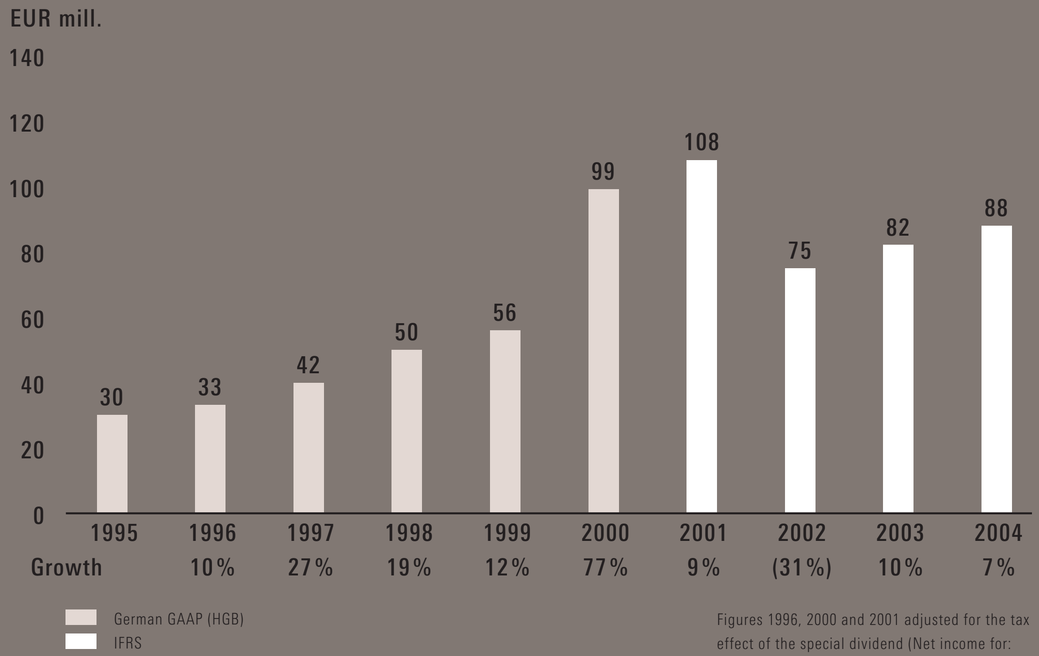
Total DOS sales in fiscal 2004 rose by 18% to EUR 98 million (2003: EUR 82 million), contributing 8% to total sales, unchanged from the prior year. Based on comparable floor spaces, currency-adjusted sales increased 8% compared to 2003.

Income Statement

	2004 EUR mill.	2003 EUR mill.	Change in %
Sales	**1,168.4**	**1,054.1**	**11**
Cost of materials incl. changes in inventories	(537.3)	(508.8)	(6)
Gross margin	**631.1**	**545.3**	**16**
in % of sales	54.0	51.7	
Other operating income and expenses[1]	(261.7)	(224.9)	(16)
Personnel expenses[1]	(198.1)	(170.4)	(16)
Depreciation/amortization[1]	(36.0)	(31.2)	(15)
Operating result	**135.3**	**118.8**	**14**
Goodwill amortization	(1.4)	(0.4)	
Non-recurring and exceptional items	1.4	0.9	56
EBIT	**135.3**	**119.3**	**13**
Net financial result	(5.2)	1.3	
Earnings before taxes	**130.1**	**120.6**	**8**
Taxes on income	(41.9)	(38.2)	(10)
Net income			
– total	**88.2**	**82.4**	**7**
– per share (EUR)[2]			
common stock	**1.24**	**1.16**	**7**
preferred stock	**1.26**	**1.18**	**7**

[1] Adjusted for non-recurring and exceptional items.
[2] Stock Option Program: only phantom stocks issued, so no dilution of number of outstanding shares.

Development of Net Income



Figures 1996, 2000 and 2001 adjusted for the tax effect of the special dividend (Net income for: 1996: 38.9 EUR mill., 2000: 109.0 EUR mill., 2001: 117.6 EUR mill.).

This page is not part of the management report.

Earnings Position

At the end of fiscal 2004 HUGO BOSS pre-tax earnings rose by 8% to EUR 130 million (2003: EUR 121 million), while net income improved by 7% to EUR 88 million (2003: EUR 82 million). The HUGO BOSS Group once again achieved its earnings targets in fiscal 2004.

Key factors which influenced the income statement for 2004 were:

Income development

		EUR mill.
Net income 2003		**82.4**
Change in gross margin		85.8
Change in royalties	(12.8)	
Effect of sales volume on gross margin	62.5	
Effect from changes in the gross margin percentage	36.1	
Change in operating expenses and depreciation/amortization		(70.1)
from other operating expenses	(36.6)	
from personnel expenses	(27.7)	
from depreciation/amortization	(5.8)	
Change in financial result		(6.6)
Change in non-recurring and exceptional items		0.4
Change in taxes		(3.7)
Change in earnings before tax	(3.0)	
Other tax effects	(0.7)	
Net income 2004		**88.2**

Gross margin

Measures to improve all business processes already initiated in 2003 showed positive results. The Group's gross margin was enhanced and grew by 2,3 percentage points to 54.0% compared to 2003 (2003: 51.7%).

Initiatives, primarily in the United States, and the planned expansion of the Group's own retail business in the course of fiscal 2004 contributed to a growth in gross margin. Compared to 2003, gross margin also increased due to a higher share of in-house manufacturing.

The integration of the product lines of socks, bodywear, knitwear, shoes and leather accessories eliminated the associated royalty income.

Other operating income and expenses

In fiscal 2004, operating expenses rose by 16% to EUR 262 million (2003: EUR 225 million), mainly as a result of expenses related to the takeover of the M.H. shoes & accessories Group and the integration of textile product lines previously manufactured under license.

Operating expenses were also impacted by an increase in bad debt provision compared to 2003 in response to the persistently difficult situation in certain markets in 2004.

Personnel expenses

Personnel expenses increased by 16% to EUR 198 million in fiscal 2004 compared to the prior year (2003: EUR 170 million).

The main reason for the rise in personnel expenses was the takeover of two production sites as part of the acquisition of M.H. shoes & accessories AG, in addition to the enlargement of production capacity in Izmir, Turkey and the planned expansion of sales through the Directly Operated Stores.

Depreciation

Depreciation climbed by 15% to EUR 36 million in fiscal 2004 (2003: EUR 31 million) primarily as a result of the extension of company production facilities in Turkey, as described above, and the acquisition of two production sites as part of the takeover of the former shoe and leather accessory licensee.

Key performance indicators

		2004	2003
Operating margin	in %	11.6	11.3
EBIT	in EUR mill.	135.3	119.3
EBITDA	in EUR mill.	172.7	152.2
Return on sales	in %	7.5	7.8
Return on net capital invested (average)	in %	23.1	21.6
Gross margin ratio	in %	54.0	51.7
Net current assets	in EUR mill.	279.4	310.1

Operating result

The operating result grew by 14% to EUR 135 million (2003: EUR 119 million).

Goodwill amortization

Goodwill arising from the acquisition of M.H. shoes & accessories AG was amortized in fiscal 2004 for the first time. This caused goodwill amortization to increase by EUR 1 million.

Non-recurring and exceptional items

In fiscal 2004, exceptional income amounted to EUR 1 million (2003: EUR 1 million) due to the release of several provisions for severance payments that were not utilized.

Net financial result

The net financial result for fiscal 2004 was EUR –5 million (2003: EUR 1 million) due to the financing of the acquisition of M.H. shoes & accessories AG and the expansion of own production capacities. Gains of EUR 6 million were recorded from currency hedging transactions in fiscal 2003 as a result of higher fluctuations in exchange rate parities.

Tax rate

The Group's overall tax rate in fiscal 2004 remained unchanged at 32% (2003: 32%). The average tax rate of the HUGO BOSS Group, however, declined slightly as a result of increased internationalization of business and higher shares of earnings contributed by foreign subsidiaries, where lower tax rates apply than in Germany. Due to the devaluation of deferred tax credits of a foreign subsidiary in fiscal 2004 the tax rate was increased and remained at the previous year's level.

Earnings per share

Earnings per share rose in accordance with Group earnings. Earnings per common share increased by 7% to EUR 1.24 (2003: EUR 1.16), earnings per preferred share by 7% to EUR 1.26 (2003: EUR 1.18). Common shares, acquired by the HUGO BOSS Group as part of the stock buy-back program, are not entitled to dividends. The HUGO BOSS stock option plan did not dilute earnings per share, since it is based on virtual shares (stock appreciation rights).

Analysis of Financial Requirements

	2004 EUR mill.	2003 EUR mill.	Change in %
Trade receivables, other assets[1]	176.7	222.6	(21)
Inventories	250.7	214.7	17
Trade payables and other liabilities[1]	(66.8)	(53.0)	(26)
Provisions	(81.2)	(74.2)	(9)
Net current assets	**279.4**	**310.1**	**(10)**
Trade receivables[2]	38.0	17.0	
Net deferred taxes	13.0	11.9	9
Trade payables and other liabilities[2]	(3.1)	(2.7)	(15)
Fixed assets[3]	263.4	222.5	18
Provisions for pensions	(14.0)	(19.7)	29
Medium- and long-term net assets	**297.3**	**229.0**	**30**
Net capital invested	**576.7**	**539.1**	**7**
Balance of cash at banks and due to banks	154.7	139.6	11
Shareholders' equity	422.0	399.5	6
Coverage of net capital invested	**576.7**	**539.1**	**7**

1 Payable within one year.
2 Payable after more than one year.
3 Tangible and intangible fixed assets.

Free Cash Flow

	2004 EUR mill.	2003 EUR mill.	Change in %
Net income	88.2	82.4	7
Depreciation/amortization[1]	37.4	32.9	14
Change of pension provisions	(5.7)	(3.4)	(68)
Cash Flow	**119.9**	**111.9**	**7**
Net additions to fixed assets	(78.3)	(35.0)	
Change in remaining net capital invested	9.0	(1.5)	
Currency translation and other equity changes	(10.5)	(14.9)	30
Free cash flow – before dividend	**40.1**	**60.5**	**(34)**
Dividend payment	(55.2)	(53.1)	(4)
Free cash flow	**(15.1)**	**7.4**	

1 Including non-recurring write-offs.

This page is not part of the management report.

Financial Position

The share capital of the HUGO BOSS Group amounted to EUR 422 million as of December 31, 2004 (December 31, 2003: EUR 400 million). At 53%, the equity-to-assets ratio remained unchanged (2003: 53%).

Compared to December 31, 2003 net debt rose by EUR 15 million (+11%) to EUR 155 million (2003: EUR 140 million), mainly as a result of the acquisition of M.H. shoes & accessories AG and the termination of a U.S. pension fund for former employees at the beginning of 2004.

Key financial indicators

			2004	2003
Equity-to-assets ratio in %	=	Shareholders' equity / Total assets	52.7	52.9
Debt-to-equity ratio in %	=	Liabilities / Equity	89.9	88.9
Net-debt-to-EBITDA ratio in %	=	Net debt / EBITDA	89.6	91.7
Interest cover in %	=	EBIT / Net interest expense	25.3	27.2
Return on equity in %	=	Net income / Ø Shareholders' equity	21.0	20.4
Capital expenditure (EUR mill.)			**57.3**	**46.3**
Total assets (EUR mill.)			**801.3**	**754.5**

Current assets

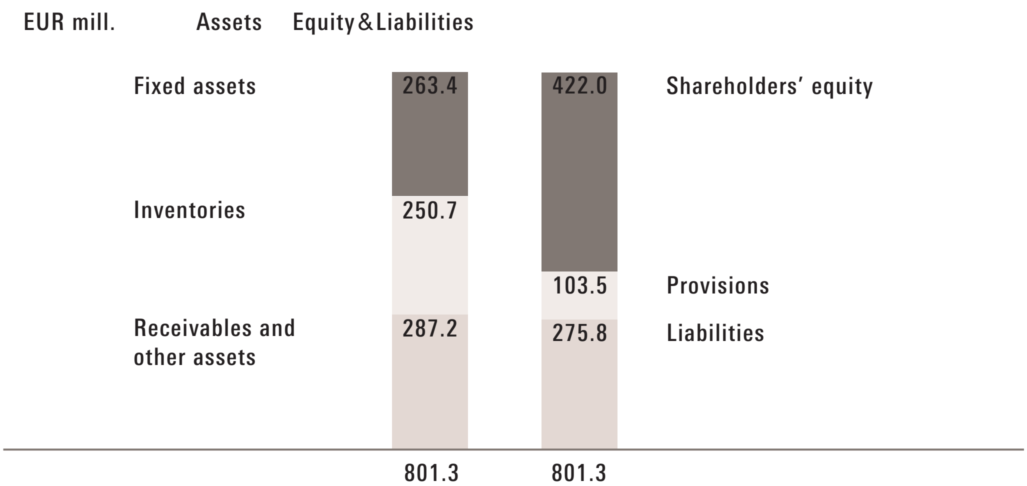
The HUGO BOSS Group successfully decreased its receivables and other assets by 21% to EUR 177 million (December 31, 2003: EUR 223 million) in fiscal 2004 due to reductions of customer receivables and a reclassification to long-term receivables in the amount of EUR 20 million.

Inventories rose by 17% to EUR 251 million due to the positive business trend in fiscal 2004 and the integration of previously licensed product lines (December 31, 2003: EUR 215 million).

Provisions

Provisions climbed by 9% to EUR 81 million in fiscal 2004 (2003: EUR 74 million). For an itemized listing, please refer to page 152 of the notes.

Balance sheet structure



Non-current assets

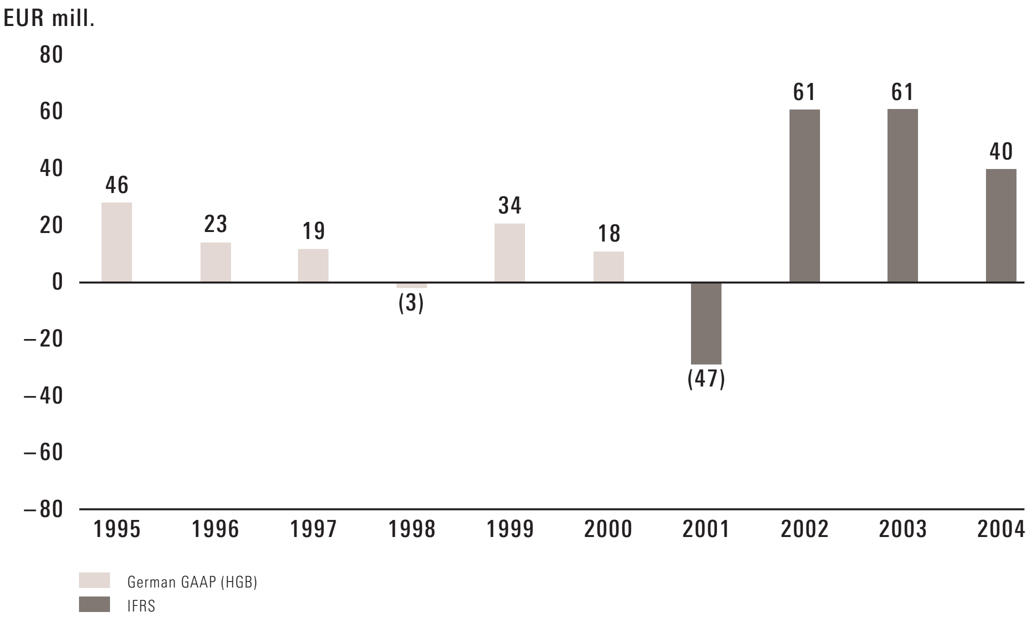
Long-term receivables increased to EUR 38 million in fiscal 2004 (2003: EUR 17 million) primarily due to reclassifications.

Fixed assets rose by 18% to EUR 263 million as of December 31, 2004 (December 31, 2003: EUR 223 million) following the expansion of the Group's own production facilities in Izmir, Turkey and the acquisition of two manufacturing sites as part of the takeover of the M.H. shoes & accessories Group.

Pension provisions were reduced to EUR 14 million at the end of 2004 (2003: EUR 20 million) due to the liquidation of a pension fund for former employees in the U.S.

Cash flow

Development of free cash flow before dividend payment



Net income improved by 7% to EUR 88 million in fiscal 2004 (2003: EUR 82 million).

The production sites purchased as part of the 2004 acquisition of the M.H. shoes & accessories Group and the expanded in-house production capabilities were depreciated for the first time in 2004, leading to a rise in depreciation to EUR 37 million (2003: EUR 33 million).

Due to a payment made to a pension fund for former U.S. employees, pension provisions were reduced. As a result, cash flow rose by 7% to EUR 120 million (2003: EUR 112 million).

Net additions to fixed assets, such as the acquisition and initial consolidation of HUGO BOSS Shoes & Accessories AG (the former M.H. shoes & accessories AG), the expansion of production facilities at Izmir, and investment in IT infrastructure reduced cash and cash equivalents by EUR 78 million (2003: EUR 35 million).

Due to low fluctuations in currency parities during fiscal 2004, the item "Currency translation and other equity changes" was, at EUR 11 million, less affected than in the previous year (2003: EUR 15 million).

Influenced mainly by the circumstances described above, the free cash flow before dividends of EUR 40 million at the end of fiscal 2004 was less than at the end of the comparable period (2003: EUR 61 million).

Total dividend payouts for fiscal 2003 amounted to EUR 55 million.

Capital expenditure

At EUR 57 million, investment in tangible and intangible assets was higher during fiscal 2004 than in the previous year (2003: EUR 46 million).

Capital expenditure, with a total volume of EUR 17 million, focused on expanding in-house production capacity, with EUR 14 million being spent on expanding the Izmir production site. New manufacturing technology of EUR 2 million was introduced in the shoe and leather accessories areas.

As in the past, the development of the Directly Operated Stores network was given high priority. The single most important project of 2004 was the establishment of the new flagship store in Paris (France) which entailed an investment of EUR 6 million. Stores in Stuttgart and Munich previously operated under the Holy's name were converted into HUGO BOSS mono-brand stores (investment volume: EUR 2 million). A total of EUR 11 million was invested in the expansion of the Group's own retail business.

The "Columbus" project, initiated in fiscal 2003, was carried on as planned during 2004. The project aims to systematically identify synergy potential and optimize processes to speed up work flows. The project is linked to the implementation of a new standard software (SAP AFS). During fiscal 2004, the amount of EUR 9 million was invested in the Columbus project.

Research and development

Research and development expenses are mainly incurred by the HUGO BOSS Group for the creation of fashion collections. As part of the integration and expansion of the product line of shoes and leather accessories, HUGO BOSS implemented new production technologies and developed its own designs and forms. Approximately EUR 2 million were spent.

As a result, research and development expenses rose by 9% to EUR 25 million during the period under review (2003: EUR 23 million).

Columbus

HUGO BOSS has launched a comprehensive and important strategic project under the name of “Columbus.” The goal of the project is to standardize corporate processes and adapt them to the changing underlying conditions resulting from the incorporation of new corporate divisions and product groups as well as a change in international market requirements. A new, integrated enterprise resource planning (ERP) system will be instituted as part of the project.

Standard software (SAP AFS) will assist the HUGO BOSS Group in coping with changes that affect the entire value creation chain. In order to ensure that the new system is able to map the entire company with all of its complex structures, a pilot project encompassing nearly all of the Group’s business processes was initially launched in the HUGO division.

Experience gained from this pilot project will be very useful when the system is implemented for the Group as a whole at a later date. HUGO BOSS anticipates synergistic effects on an annual basis in the low single-digit millions once the new system has been completely integrated into the Group, which should be achieved by 2007.

Shoes and Accessories

The process of integrating the former licensee M.H. shoes & accessories, acquired in January 2004, was completed in the middle of the year with the incorporation of the logistics function into HUGO BOSS structures.

Leather accessories round out the HUGO BOSS lifestyle world perfectly. The focus is on shoes, bags, luggage, and leather accessories. Operational management, i.e. design, product management, purchasing, production, sales and finances, originates in Switzerland and Italy.

Sales in the core markets occur via the Group’s own subsidiaries. In addition to our standard distribution via mono-brand shops and exclusive clothing retail partners, HUGO BOSS is also increasingly working towards selling its products in its own independent shoe, sports and leather goods specialty stores. Our aim is to build up a leading position in the leather accessories market. HUGO BOSS men's shoes are already successfully positioned in the market; whilst considerable potential exists particularly for women's shoes and accessories.

The product line of shoes and accessories performed quite well in the year of integration. Total sales of HUGO BOSS shoes and leather accessories rose by 36% to EUR 72 million (2003: EUR 53 million) in fiscal 2004.

Purchasing

The HUGO BOSS Group procures the majority of the high-quality, exclusive dress fabrics required for its collections from Italy. In order to meet challenging market demands with respect to up-to-the-minute, high quality fashions, HUGO BOSS has nurtured close relationships with suppliers for many years.

Finished goods, such as t-shirts and sweatshirts that meet the exacting quality requirements of HUGO BOSS, are developed in cooperation with international producers.

Ongoing process improvement is given high priority in the purchasing division as well. In the past fiscal year, the materials required for production, particularly buttons, thread and zippers were processed for the first time via the modern raw materials warehouse at the Group's headquarters.

In-house production

In 2004, the next stage in expanding in-house production capacity was completed in Izmir, Turkey, where the more complex items of our men's collection are manufactured using modern production facilities. A production line for all of the women's outer garments was also put into operation as planned. In addition, sportswear articles such as jackets, jeans and leisure shirts are manufactured at Izmir. As expected, the new production lines were able to meet the capacity goals and adhere to the high quality specifications in a very short time.

In addition to the plant in Turkey, the HUGO BOSS Group disposes of production sites for textile products in the United States, Switzerland and Germany, as well as manufacturing locations in Poland and Italy for shoes and leather accessories.

Environmental protection

The HUGO BOSS Group considers ecology and social responsibility to be important factors in sustainably increasing the Group's economic success. Due to the fact that no noteworthy emission of environmental pollutants occurs in the course of production activities, the focus of environmental protection in 2004 was on energy-saving measures and the recycling of resources. HUGO BOSS also adhered to the relevant environmental standards with respect to the delivery of operating supplies and pre-products to the greatest extent possible.

Segment Information by Product Area

	Menswear segment[1]		Womenswear segment	
	2004 EUR mill.	2003 EUR mill.	2004 EUR mill.	2003 EUR mill.
Sales	**1,099.1**	**1,003.3**	**69.3**	**50.8**
Depreciation/amortization[2]	(33.9)	(29.6)	(2.1)	(1.6)
Operating result	133.2	122.3	2.1	(3.5)
in % of sales	12.1	12.2	3.0	–
Non-recurring and exceptional items	1.3	0.5	0.1	0.4
Net income	**88.0**	**85.4**	**0.2**	**(3.0)**
in % of sales	8.0	8.5	0.3	–
Assets	759.4	714.2	41.9	40.3
Liabilities	276.5	253.6	102.8	101.4
Equity	482.9	460.6	(60.9)	(61.1)
Capital expenditure	**52.2**	**43.5**	**5.1**	**2.8**
Number of employees (Full-time equivalents)	**6,595**	**5,035**	**347**	**75**

[1] Existing men's collections business. Amounts attributable to the HUGO Woman product line have been included to simplify the presentation.
[2] Without amortization of goodwill.

Segment Information by Region

	2004		2003	
	EUR mill.	in %	EUR mill.	in %
Sales				
Germany	292.2	25	261.4	25
Other European countries	519.0	44	451.5	43
Americas	205.1	18	186.7	18
Asia/other regions	111.7	10	101.3	9
Royalties	40.4	3	53.2	5
Total	**1,168.4**	**100**	**1,054.1**	**100**
Assets				
Germany	316.3	39	297.9	39
Other European countries	304.4	38	262.0	35
Americas	124.8	16	128.2	17
Asia/other regions	48.9	6	46.7	6
Royalties	6.9	1	19.7	3
Total	**801.3**	**100**	**754.5**	**100**
Capital expenditure				
Germany	24.5	43	18.9	41
Other European countries	28.4	49	16.4	35
Americas	3.3	6	7.0	15
Asia/other regions	1.1	2	4.0	9
Total	**57.3**	**100**	**46.3**	**100**

This page is not part of the management report.

Segment Reporting

Menswear segment

Sales in the menswear segment, which represents 94% of total sales, rose by 10% to EUR 1,099 million in fiscal 2004 (2003: EUR 1,003 million).

A particular highlight was the positive performance of the HUGO BOSS men's brands in Germany, which grew by 10% to EUR 274 million (2003: EUR 249 million) against a declining trend in the German fashion market which lost approximately 2% in 2004.

HUGO BOSS was able to increase men's clothing sales in international markets as well. Sales outside of Germany rose by 9% to EUR 825 million (2003: EUR 754 million). Only license revenues receded by 27% to EUR 34 million in 2004 due to the integration of textile product groups in 2003 and the acquisition of the former licensee for shoes and leather accessories (2003: EUR 46 million).

Operating expenses grew by 16% to EUR 462 million in 2004 (2003: EUR 399 million), reflecting expenses incurred in the integration of M.H. shoes & accessories AG, acquired at the beginning of fiscal 2004, and the expansion of in-house production facilities.

Exceptional income of EUR 1 million was allocated to the menswear segment in fiscal 2004 (2003: EUR 1 million).

Taking into account the factors described above, net income in the menswear segment rose by 3% to EUR 88 million (2003: EUR 85 million).

Womenswear segment

The dynamic growth of the previous year continued for BOSS Woman in 2004, with a sales increase of 36% to EUR 69 million (2003: EUR 51 million).

The gross profit margin in the womenswear segment increased significantly to over 51% (2003: 48%) due to continuous improvements in the fashion statement of the collections as well as in product quality and workmanship. The gross margin was EUR 36 million (2003: EUR 24 million).

As a result of internal process optimization related to the 47% increase in gross margin, the operating result was for the first time positive for the fiscal year as a whole at EUR 2 million (2003: EUR –4 million).

Non-recurring and exceptional income and expenses in this segment were insignificant in the period under review.

With net income of EUR 200 thousand (2003: EUR –3 million), BOSS Woman has reached break-even as planned.

Human Resources

Employees (Full-time equivalents)	2004	2003	Change in %
– by region			
Germany	1,747	1,623	8
Other European countries	3,936	2,342	68
Americas	958	878	9
Asia/other regions	301	267	13
Total	**6,942**	**5,110**	**36**
– by function			
Production/Logistics	4,774	3,226	48
Sales/Creation/Marketing	1,649	1,424	16
Administration	519	460	13
Total	**6,942**	**5,110**	**36**

Key Personnel Figures

	2004	2003	Change in %
Personnel expenses[1] (total EUR mill.)	198.1	170.4	16
Personnel expenses per employee[1] (EUR thous.)	30.6	33.9	(10)

[1] Non-recurring costs are not included in personnel expenses.

This page is not part of the management report.

Human Resources

Significant rise in number of employees

The number of employees in the Group increased by 1,832 to 6,942 (as of December 31, 2004). Major factors in this rise include the takeover of the former license partner for shoes and leather accessories, the M.H. shoes & accessories Group with its two large production sites in Poland and Italy, and the capacity increase at the manufacturing site in Izmir. The HUGO BOSS Group created a total of 124 new jobs in Germany during the fiscal year 2004. Most of the new hirings were in logistics.

Search for human resources becomes international

The steady rise in demands placed on employees led the HUGO BOSS Group to broaden recruitment measures. The search for employees was intensified and expanded to target the international employment market. Highly qualified young individuals with successor potential and international backgrounds were successfully recruited at HUGO BOSS AG and its subsidiaries.

Attractive employer

In 2004, HUGO BOSS was voted one of the best German employers by its employees. Management credibility, fair working conditions, and a mix of attractive employment terms and social benefits were the main contributing factors.

The HUGO BOSS Group’s appeal as employer is also demonstrated by the fact that some 16,000 applications for employment were received in 2004.

Training programs at HUGO BOSS AG

HUGO BOSS AG has lived up to the social responsibilities conferred on companies under the agreement on the promotion of vocational training between the German government and representatives of employers and businesses. The number of trainee positions was increased, and two new training programs were established in the industrial area.

Training programs at HUGO BOSS AG

- Apprentice positions for the professions: industrial merchant, industrial merchant (EU), retail sales person, inventory administration specialist (new), electronics engineer for operational technology (new), fashion seamstress/tailor
- Vocational Academy for Industry and Business IT
- Internships, thesis-related projects, workshops for college students
- Management Trainee programs

Continuing education

Highly-qualified and motivated employees constitute the central success factors in the flourishing business development of the HUGO BOSS Group. An in-house continuing education program prepares employees for the specific requirements of the Hugo Boss Group and provides ongoing training.

In fiscal 2004, more than 6,700 HUGO BOSS employees and staff of mono-brand stores worldwide were trained in product, sales and presentation techniques.

In addition, HUGO BOSS University offered continuing education programs in merchandise technology, customer service and human resources management to more than 600 executive employees through a combination of online courses and on-site training.

Career advancement of university graduates

The priME Cup is a management competition in three stages intended for university students in Baden-Wuerttemberg; students from 39 universities took part. HUGO BOSS AG was the chief sponsor of the priME Cup for the first time in 2004, offering the winning graduates internships to allow them to apply in practice what they had learned.

Appreciation and thanks

Our dedicated and highly motivated employees made a significant contribution to the HUGO BOSS Group's successful development in 2004.

The Managing Board wishes to thank all employees, employee representatives and the members of the workers' council for their great commitment and successful work.

Changes in the Scope of Consolidation

Consolidated Group

	Dec. 31, 2004	Dec. 31, 2003
Number of fully consolidated companies	54	43
Investments accounted for at equity	0	0
Total	**54**	**43**

Significant changes were made to the scope of consolidation at the beginning of fiscal 2004 as a result of the takeover of the operating business of the former licensee for shoes and leather accessories. The five companies acquired were consolidated for the first time effective January 1, 2004. Accordingly, the income statements for the months of January to December, 2004, and the balance sheets as of December 31, 2004, have been fully consolidated.

HUGO BOSS AG transferred all trademark rights to a newly established subsidiary, HUGO BOSS Trade Mark Management GmbH & Co. KG, effective October 16, 2004. The new company combines all HUGO BOSS activities dealing with the protection, development and utilization of the HUGO BOSS trademark portfolio.

In addition, further changes were made to the scope of consolidation that were of lesser significance to the net assets, financial position and results of operations of the HUGO BOSS Group.

The number of consolidated companies rose from 43 at the end of the 2003 to 54 as of December 31, 2004.

Sales Trends

	2005	2004 EUR mill.
Germany	↗	292.2
Other European countries	↗	519.0
Americas	↗	205.1
Asia/other regions	↗	111.7
Royalties	↗	40.4
Total	↗	**1,168.4**

Earnings Trends

	2005	2004 EUR mill.
Sales	↗	1,168.4
Gross margin	↗	631.1
in % of sales	↗	54.0
EBIT	↗	135.3
Earnings before taxes	↗	130.1
Net income	↗	**88.2**
Earnings per share (EUR)		
Common shares	↗	1.24
Preferred shares	↗	1.26

Other Developments

	2005	2004
Number of employees (Full-time equivalents)	↗	6,942
Net current assets (EUR mill.)	→	279.4
Capital expenditure (EUR mill.)	↗	57.3

This page is not part of the management report.

Forecast

Subsequent events

Prior to March 02, 2005, no material operational changes, structural modifications or business events occurred that might serve to alter statements contained in the 2004 financial statements.

Forecasts for economic development in 2005

According to "Organization for Economic Cooperation and Development" (OECD) estimates, global economic growth will slow to 3.2% in 2005 (2004: 3.9%), mainly due to higher oil prices. Moreover, the weakness of the dollar may develop into a potential risk for Europe in particular due to rising export prices.

While, according to the OECD, the U.S. Federal Reserve will have to raise the prime rate following interest rate adjustments totaling 2.5% over the past year, the European Central Bank (ECB) will be able to leave interest rates at their current levels as a result of price stability in the euro-zone.

Following economic growth of 4.4% in 2004, the development of gross domestic product in the U.S. should remain at a high level in the coming year (projected figure: 3.3%). Interest rate levels, which are still relatively low, and the generally positive trend in corporate profits in the U.S. are likely to result in greater investment and higher employment levels, which should uphold the positive consumption climate.

Higher oil prices will also have a sobering influence on the dynamic economies in East Asia during 2005. It is expected that, with growth in China having surpassed its zenith in 2004, growth will begin to subside in 2005. Nevertheless, OECD economists still anticipate an increase of 8.0% for 2005. Growth of only 2.1% is expected for the Japanese economy in 2005. This trend, primarily based on the slowing of export growth, should, however, have been overcome by the end of 2005, according to Japanese central bank estimates. The fall survey of the German economic institutes foresees growth of 4.7% for the countries of East Asia on the whole.

Growth of 2.3% is expected in the euro-zone countries in 2005. The OECD believes that the slowing of exports caused by world economic developments will be more than offset by a recovery in domestic demand. Economists also expect higher investment volumes. A strong appreciation of the euro and continued rises in oil prices could, however, place a strain on continental Europe due to its higher reliance on exports.

This is particularly true for Germany. Economic experts expect growth of up to 1.5% for 2005. Exports remain the key growth engine for Germany, even though a slowdown is anticipated. Economists see signs of recovery in investment and in the stabilization of retail sales. Market researchers anticipate that consumption will be up by 0.8% for 2005 as a whole. This would mean the first tangible rise in domestic demand in three years.

Sector developments

The high fashion market should see nominal and real growth of 3% in 2005. Asian and U.S. markets should continue to experience above-average growth, in contrast to expectations of below-average performance in Europe.

Sales forecast

The HUGO BOSS AG Managing Board anticipates sales growth in the high single digits in fiscal 2005 when adjusted for currency effects.

Women's fashions as well as women's shoes and handbags should continue to grow at an above-average rate.

The product groups fragrances, eyewear and watches still licensed out should also develop positively in fiscal 2005. Due to product launches during fiscal 2005 in the fragrances division, license revenues are expected to develop more strongly than in the past fiscal year. A new watch collection is being designed together with the new watch licensee, MGI Luxury Group S.A., a subsidiary of the Movado Group, Inc., to be marketed starting in fiscal 2006. Business in the area of upscale fashion watches will thereby be considerably strengthened.

HUGO BOSS continues to expand its core competence in high-end classical clothing with BOSS Selection. The collection is being continuously extended after its successful launch in 2004. The share of casualwear in total sales should also continue to climb.

The expansion of the DOS channel remains high priority. This should contribute to additional sales in 2005.

Projected earnings for 2005

The Managing Board anticipates continued profitable growth in fiscal 2005 and a rise in pre-tax earnings in proportion with sales growth. Significant effects on income are detailed below:

- The steps taken to reduce the complexity of the collections in the preceding fiscal year are showing an impact. The entire value creation chain is re-mapped in IT systems. This will allow improvement potentials to be realized and will lastingly improve the earning power of the HUGO BOSS Group.

- Fiscal 2004 was, in particular, distinguished by double-digit sales increases for BOSS Woman. This development is likely to continue in the current fiscal year. It will be increasingly possible to take advantage of economies of scales at BOSS Woman due to the sharp growth in sales. This will improve BOSS Woman's earning power.

- Gross profit margins should be increased over 2004 levels due to the expansion of in-house production capacities, additional reinforcement of sales via Company stores and measures implemented in a program to increase efficiency.

- These positive effects are contrasted by higher marketing costs and expenses incurred for the further expansion of in-house retail business (DOS).

Additional jobs in 2005

HUGO BOSS intends to create more jobs in 2005 both in Germany as well as internationally based on the continued expansion of Group retail activities and an overall rise in business volume.

Capital expenditure

Expanding the in-house retail business (DOS) will be given high priority again in fiscal 2005. In addition, a variety of IT projects are of strategic significance, such as the continuation of the project to replace the ERP system with standard SAP AFS software. The total volume of capital expenditure should add up to approx. EUR 70 million in fiscal 2005 (2004: EUR 57 million).

Free cash flow

Free cash flow should be significantly above the level of fiscal 2004 due to the rise in earnings, the moderate increase in net assets compared to the previous year, and the significantly reduced cash outflows resulting from acquisitions and the termination of a pension fund.

Dividends

Dividend continuity is an important characteristic of HUGO BOSS. High dividends will continue to justify investor confidence in HUGO BOSS shares.

Risk Report

Risk management system

The ability to identify risks early on, as well as to record, assess and monitor them, forms the basis of successful company management. The HUGO BOSS risk management system incorporates all planning, control and reporting systems.

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

The risk manual is a set of guidelines which describes the risk management system in detail. It contains the basic principles according to which risks are identified and assessed in the HUGO BOSS Group.

The risk catalogue lists the key risks for the Company. At least once a year risks are systematically identified and updated for all functional divisions, as well as the organization as a whole, as part of a risk inventory process. A separate risk catalogue has been developed for subsidiaries.

Each risk is assessed for damage level and the probability of occurrence. In addition, activities and tools are described that help to promptly identify anomalies. Should a risk materialize, reporting chains are triggered and corrective measures initiated.

A test of risk management system functionality takes place as part of the audits conducted in corporate divisions and subsidiaries by internal audit.

The HUGO BOSS risk management system fulfills the requirements under the Law for Control and Transparency in the area of Organizations (KonTraG). HUGO BOSS is in a position to recognize developments that may jeopardize the Company’s existence early and to respond quickly and appropriately.

The auditors have reviewed the risk management system as part of their statutory year-end audit and have attested to its adequacy in their report.

Key risks are detailed below.

Risks related to inventories and receivables

Inventories and receivables form a core component of the monthly reporting system. Significant deviations can be identified more quickly than previously as the result of the introduction of more immediate monthly reporting. Countermeasures are instituted based on in-depth analysis, which serves to prevent adjustments and inventory structure problems.

Inventory management is underpinned by ongoing optimization of the supply chain. Trading partners, for instance, are able to enter warehouse orders and follow inventory movements.

In terms of raw materials, the impairment risk was lowered in fiscal 2004 through systematic reduction of collection complexity.

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. They revolve around granting and adhering to customer credit limits, monitoring the aging of receivables and doubtful accounts management.

Internal audits are conducted to review compliance with Group guidelines.

Fashion collection and market risks

As a fashion and lifestyle company, every season confronts HUGO BOSS with a new risk that the collections presented may receive a less positive market reception than anticipated. This is even more the case now that competition has heated up as a result of fashion, sports and lifestyle companies edging closer to each other.

HUGO BOSS counters this risk by means of centralized creation of the collections and a globally consistent brand image. At the same time, constant market observation, as well as a presence at international fashion fairs, ensures that trends are recognized early and taken into consideration when the collections are created. Multi-season concepts and special collections are gaining significance in this process.

In addition, the broad range of the collections, the great variety of brands and products, as well as our market presence in more than 100 countries with over 5,000 points of sale, mitigate this risk.

Retail activities and investment risk

The expansion of the retail business through Directly Operated Stores is one of the HUGO BOSS Group's strategic goals. This process is accompanied by additional integration of product lines from the licensing business, such as shoes & accessories in 2004.

A new management department was established in January 2004 to focus on the Group's retail activities.

Involvement in the retail business enables HUGO BOSS to present the entire product range of all Group brands fully, aggressively and impressively in its own shops. Moreover, the longer value creation chain implies a higher potential gross margin. These advantages are, however, countered by investment risks, high fixed costs and long-term rental agreements. In the event that shops are less successful than anticipated, special write-offs or even closures threaten. HUGO BOSS is confronting these risks using a customized reporting and monitoring system. An independent department within the Group's financial control operations analyzes activities in shops worldwide.

A painstaking site selection process, intensive planning involving all specialist areas concerned and a multi-stage approval process that attains Supervisory Board level – all are preliminary steps to opening a new shop. The investment risk is also reduced by shop concepts with a common global theme. This signifies that shop equipment can be reused to a certain extent in the event of shop closures.

Trademark protection

Ongoing successful development for a brand company such as HUGO BOSS is inextricably linked to brand image. Brand identity protection, therefore, deserves particular attention given the sustained investment in brands. This happens primarily by defending and preserving industrial property rights in the various product groups. The BOSS brand was recorded as a famous brand in China in June 2004. HUGO BOSS is thus the only German company to date with a famous brand recorded in China. This can facilitate registration and help defend the brand.

Trademark violations, gray market activities and counterfeiting not only leads to short-term sales losses, but can permanently damage brand image. These activities are, therefore, being closely monitored around the globe. HUGO BOSS customers and sales partners work in close cooperation with the Metzingen headquarters in this respect. If necessary, legal action is taken.

Legal and liability risks

In a company such as HUGO BOSS, which operates internationally, legal disputes are unavoidable.

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

Liability risks and damage events are minimized by insurance in effect throughout the organization.

Provisions are created for any remaining risk, as well as the costs of legal advice, in the event that a claim is anticipated.

Insurance

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

This strategy is maintained despite increasing insurance premiums as well as an increasingly apparent dearth of insurance products on the insurance market. Insurance protection is supplemented by preventive measures.

Management risks

HUGO BOSS is active in all key markets in the world. Business is usually conducted via subsidiaries in which the managing directors are vested with the authority to make decisions at their own discretion, enabling them to act promptly and autonomously in response to local market conditions. For this reason, the HUGO BOSS Group has a holding structure that ensures that strategic business units are managed by entrepreneurs within the organization. All senior employees have an obligation with respect to responsible management. In addition, internal authorization regulations are reviewed and developed on a regular basis.

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

Purchasing, production, logistics and sales

In contrast to functions best exercised in proximity to the market, centralization is an important measure for limiting risks in the production and supply divisions as well as the fashion collection creation process. HUGO BOSS suppliers must not only meet high quality and deliverability demands, but they must also adhere to social and environmental requirements.

Furthermore, HUGO BOSS avoids excessive dependence on individual suppliers and procurement markets and ensures an appropriate share of in-house production. Risks that may arise from changes in customs duties, trade restrictions or political instability are thereby limited.

The central divisions coordinate manufacturers' capacity utilization and deliveries of raw materials at their premises. 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 design and production specifications on the spot. The final control of the finished product takes place in Metzingen, where shipping is also coordinated. This centralized management ensures that high quality standards are not diluted and delivery to customers is timely.

In the sales area, the focus is on a balanced customer structure. Furthermore, the orientation towards business with independent retailers is increasingly supplemented by in-house retail activities.

A detailed sales monitoring system facilitates continuous and prompt control of order levels, sales and additional relevant key figures.

IT risks

HUGO BOSS makes considerable use of IT communications systems for business processes. To minimize the risk of system crashes, HUGO BOSS employs internal and external hardware and software specialists.

As part of the Columbus project, the Group is implementing a standard software package (SAP AFS) which maps the entire value-added chain of the HUGO BOSS Group.

In order to eliminate the migration risk as much as possible, the new software application will map HUGO as a pilot project while the Group's core brand, BOSS, will be run on the existing software. A specialist consultancy and SAP representatives will accompany the Group in implementing the AFS module as the project is the largest of its kind within the fashion industry.

Funding and interest rate risks

The HUGO BOSS Group is financed primarily by shareholder's equity and therefore minimally affected by interest rate developments. Sensitivity to interest rate developments is minimal as a result. Nevertheless, long-term loans are additionally hedged with interest derivatives. To rule out liquidity risk, the Group has credit lines at its disposal, which significantly exceed the maximum debt capital requirements for the fiscal year.

Currency risks

Sensitive currencies 2005

EUR mill.	Cash inflow	Cash outflow	Net currency exposure	Negative impact of a EUR appreciation by 10%[1]
USD	57.0	(59.2)	**(2.2)**	0.06
GBP	62.8	(6.7)	**56.1**	2.14
CHF	25.5	(35.7)	**(10.2)**	(0.70)
CAD	19.2	(2.7)	**16.5**	0.28
Others	21.0	(2.7)	**18.3**	0.90
Total	185.5	(107.0)	**78.5**	2.68

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

As a company that operates internationally, the HUGO BOSS Group is subject to risks arising from exchange rate fluctuations. Business activities result in delivery and payment flows in various currencies.

50 to 100% of anticipated net cash flows are hedged for a period of up to 18 months. Basic transactions and currency hedging are recorded in a treasury management system and can be valued at any time. Only those forward exchange deals and currency options customary in the market are entered into. Foreign exchange management of balance sheet positions is limited to internal Group dividend payments and internal loans related to subsidiaries.

Exchange rate risks exist mainly for the delivery of goods to Great Britain, Canada, Japan and Australia. The risk with regard to the U.S. dollar is minimal for 2005, given that sales from the U.S. business are offset by goods purchased or manufactured in Asia and denominated in US dollars.

As portrayed in the table above, only a very small residual risk from exchange rate fluctuations remains as a result of the high coverage rate.

Overall risk

Planning risks naturally arise in connection with the forecast of sales, inventory write-off estimates, bad debts and, to a small degree, exchange rates.

Risks with the potential of jeopardizing the continued existence of the company are not discernible.

Further Information on the Financial Statements

Dividend proposal

The Managing Board and Supervisory Board will propose to the Annual Shareholders' Meeting that EUR 59,377 thousand of the distributable profit be paid as dividend as follows:

	2004 EUR thous.
1. Distribution of a dividend of EUR 0.84 per common share 35,735,735 common shares	30,018
2. Distribution of a dividend of EUR 0.85 per preferred share 34,540,000 preferred shares	29,359
Total dividend payout	**59,377**

The proposal for the appropriated profit takes into consideration that 124,265 common shares are held by HUGO BOSS AG at December 31, 2004. These shares are not entitled for dividends.

In case HUGO BOSS Aktiengesellschaft hold own shares at the time of the resolution of the shareholders meeting, these shares are not entitled to dividend. The amount allocated to shares not entitled to dividend will be carried forward to a new account.

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 Marzotto Group and the companies belonging to HUGO BOSS Group. The Managing Board declares according to Section 312, Paragraph 3 of the AktG that our Company received appropriate compensation for legal transactions listed in the report with affiliated companies according to conditions known at the time such legal transaction were undertaken. No measures subject to reporting requirements were undertaken in fiscal year 2004.

Metzingen, March 02, 2005

HUGO BOSS Aktiengesellschaft
The Managing Board

Independent Auditor's Report

We have audited the consolidated financial statements comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Hugo Boss Aktiengesellschaft, Metzingen, for the business year from January 1, 2004 to December 31, 2004. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations 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 it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of the audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the HUGO BOSS-Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, 2004 to December 31, 2004, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, 2004 to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Stuttgart, March 02, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Meyer
Wirtschaftsprüfer

Hagg
Wirtschaftsprüfer

Report of the Supervisory Board

Report of the Supervisory Board

Ladies and Gentlemen,

Throughout 2004, the Supervisory Board fulfilled its duties as established under law, the Company Statutes and its Bylaws. It has given detailed attention to the situation of the Company, providing counsel to the Managing Board and monitoring the management of the Company.

The Managing Board informed the Supervisory Board promptly and comprehensively of all significant events related to the business. This took place during meetings and by means of written reports. The Supervisory Board was involved in all fundamental decisions. Even beyond the meetings, the Chair of the Supervisory Board was in close contact with the Managing Board, which provided information on all current corporate developments.

A total of four Supervisory Board meetings were held as planned in March, May, September and December of the year under review.

In addition to current business developments, the issues discussed in these meetings revolved around the continued expansion of the Group's own retail business and the conclusion of a new license agreement for watches. All matters requiring Board consent were submitted to the Supervisory Board, which granted the requisite approvals after thorough consideration.

The declaration of compliance for 2004 concerning implementation of the Corporate Governance Code at HUGO BOSS AG was passed in December 2004 and immediately made available to the public on the Company's website.

In addition to the Supervisory Board meetings, the Audit Committee and the Working Committee of the Supervisory Board each held four sessions. The Working Committee was provided with additional information in a strategy meeting in Madrid in June 2004. These consultations focused on strategically significant topics such as BOSS Woman, expansion of the Company's own retail network and integration of the shoes and leather accessories division.

The external auditor, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (Stuttgart), appointed by the Annual Shareholders' Meeting of May 18, 2004 and commissioned by the Supervisory Board, reviewed the financial statements and management report along with the consolidated financial statements and Group management report as of December 31, 2004 and issued an unqualified audit opinion. The auditor confirmed that no inaccuracies or violations of applicable laws were noted in the financial statements, the consolidated financial statements, the management report or the Group management report and that an effective risk management system had been implemented in accordance with the law.

All members of the Supervisory Board received the auditors' report without delay.

The Audit Committee and the Supervisory Board have dealt in detail with the annual financial statements, the consolidated financial statements, the management report and Group management report as well as the proposal for the appropriation of profits. Relevant documentation was supplied beforehand. The financial statements of HUGO BOSS AG as prepared by the Managing Board were accepted at the Supervisory Board meeting of March 2, 2005, and the consolidated financial statements were deemed approved. The auditors who signed the opinion were present at the meetings of the Audit Committee and Supervisory Board. They were available to answer any questions of the Supervisory Board, and they reported on key audit findings.

The Managing Board has, in addition, drawn up its report on relations with affiliated companies and submitted this report, along with the audit report, to the Supervisory Board, the Working Committee and the Audit Committee. The auditors have issued the following audit certificate:

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

1. information in this report is correct,

2. with respect to the legal transactions cited therein, the company's contribution was not inappropriately high."

The Supervisory Board and its committees have also carefully reviewed the report on relations with affiliated companies and concur with the audit findings. There are no grounds for raising objections to the Managing Board's statement regarding relations with affiliated companies.

Dr. Pietro Marzotto resigned his seat on the Supervisory Board as of July 26, 2004 for personal reasons. Effective July 27, 2004, Mr. Dario Federico Segre was appointed by the Reutlingen Local Court to succeed Dr. Marzotto as full member of the Supervisory Board for the remainder of Dr. Marzotto's term of office. The Supervisory Board wishes to thank Dr. Marzotto for his longstanding participation.

The Supervisory Board would also like to thank the Managing Board, the employee representatives and the entire staff for their work in 2004.

Metzingen, March 2, 2005

The Supervisory Board

Dr. Giuseppe Vita
(Chair)

HUGO BOSS 10th Anniversary in China

China
The world's fastest-growing market with a high awareness of international luxury brands and enormous potential for globally expanding companies.

HUGO BOSS was
one of the first international fashion companies to venture into China. The Group opened its first shop in 1994 in Shanghai and has now been the country's market leader for several years.

HUGO BOSS is
available today at seven Shanghai shops out of a total 59 locations throughout China. At the end of 2004, HUGO BOSS was operating 125 shops in twelve Asian countries. The most important markets in Asia are China, Singapore, Taiwan and Korea. The Group maintains its own subsidiary and showroom in Hong Kong.

HUGO BOSS will be
operating 100 shops in China within a few years and opening a second subsidiary in Shanghai during 2005.

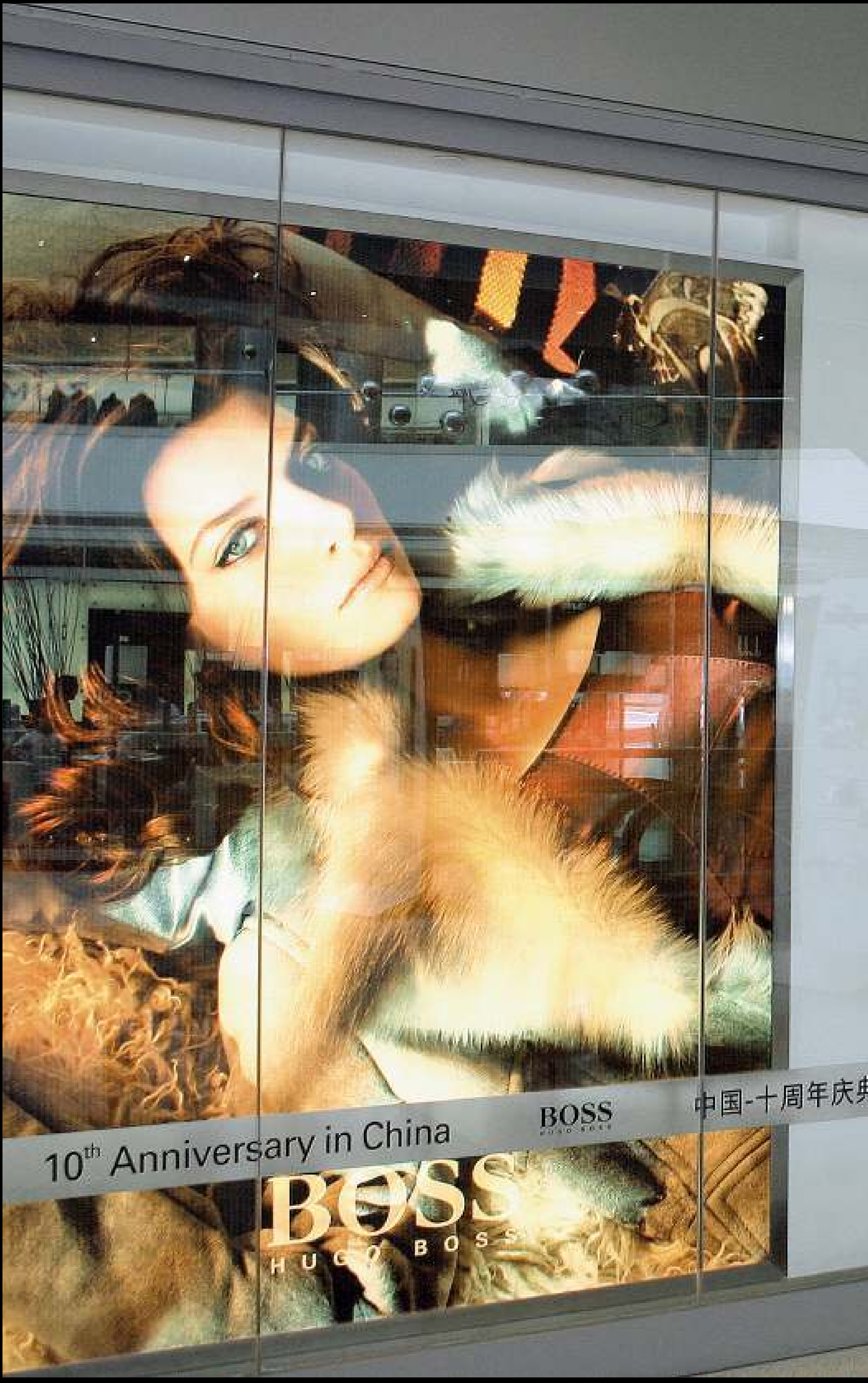
上海的印象

Impressions of Shanghai

于中國超過三十个城市有專賣店

HUGO BOSS Shops in China

BEIJING • CHANGCHUN • CHANGSHA • CHANGZHOU • CHENGDU • CHONGQING DALIAN • GUANGZHOU • GUIYANG • HANGZHOU • HARBIN • JINAN • KUNMING NANJING • NINGBO • QINGDAO • SHANGHAI • SHENYANG • SHENZHEN • SHIJIAZHUANG • SUZHOU • TAIYUAN • TIANJIN • URUMQI • WENZHOU • WUHAN • XIAMEN XIAN • ZHENGZHOU • ZHUHAI


10th Anniversary in China
BOSS
中国-十周年庆
BOSS
HUGO BOSS


105
BOSS


HAITONG

September 2004
The 10th anniversary of HUGO BOSS' entry into the Chinese market was celebrated with a gala fashion event at an exclusive venue overlooking the Huangpu River in Shanghai.


BOSS
HUGO BOSS

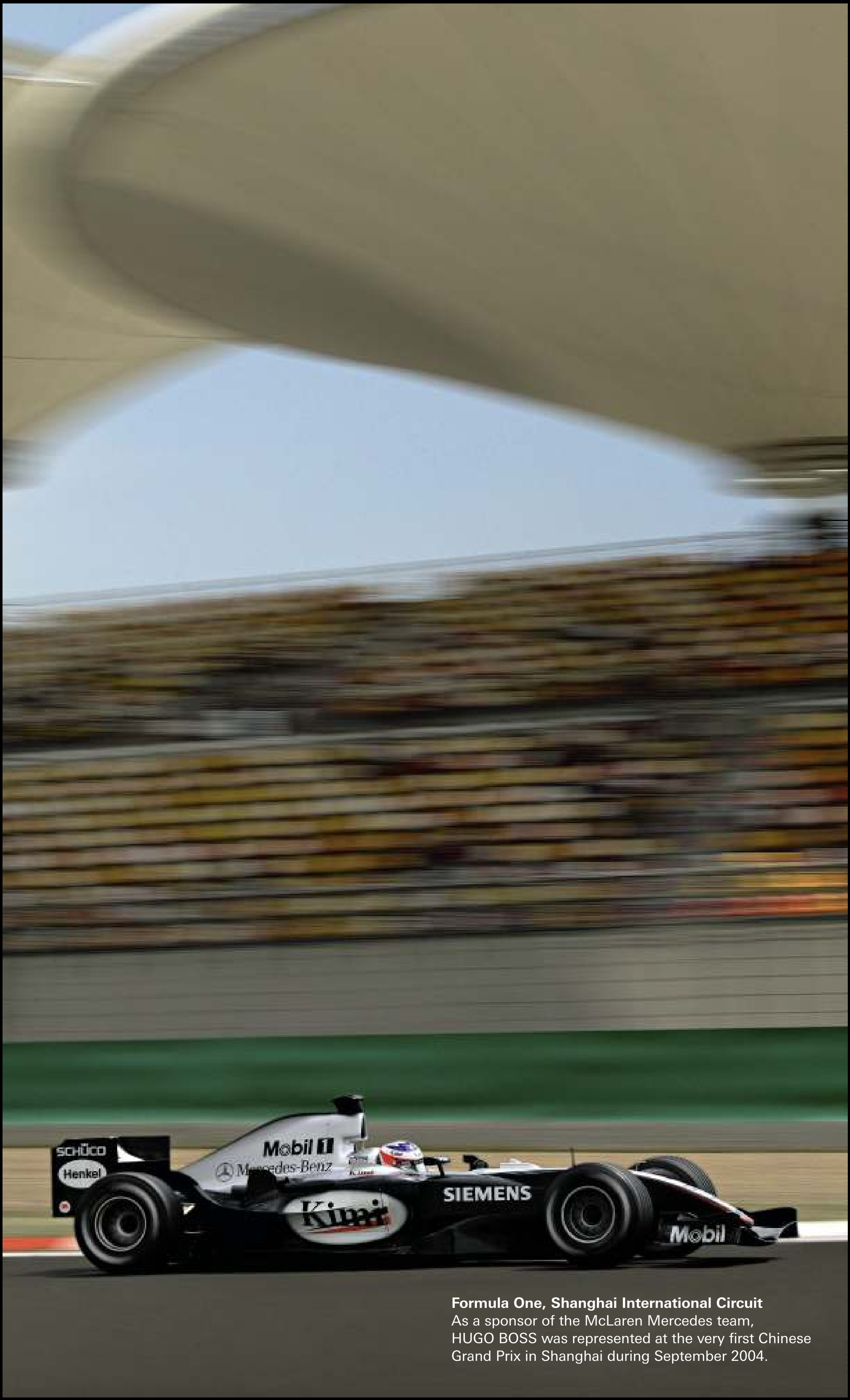

BOSS


于上海的時装盛会
HUGO BOSS fashion event in Shanghai

Shanghai's magnificent skyline

上海宏偉的轮廓

Kimi Raikkonen concentrating on the upcoming race



Formula One, Shanghai International Circuit
As a sponsor of the McLaren Mercedes team, HUGO BOSS was represented at the very first Chinese Grand Prix in Shanghai during September 2004.

Franz Ackermann

Rivane Neuenschwander

Jeroen de Rijke & Willem de Rooij

Simon Starling

Rirkrit Tiravanija (Winner 2004)

Yang Fudong

The six nominees for the HUGO BOSS PRIZE 2004, our internationally acclaimed award in the field of contemporary art.

獎金

The nominees for the HUGO BOSS PRIZE 2004 included the artist Yang Fudong, who lives in Shanghai.

Consolidated Financial Statements as of December 31, 2004

Consolidated Income Statement

of HUGO BOSS Aktiengesellschaft, Metzingen for the period January 1 to December 31, 2004

	Notes No.	2004 EUR thous.	2004 EUR thous.	2003 EUR thous.
Sales	(1)	**1,168,355**		**1,054,112**
Other operating income	(2)	38,525		45,764
Changes in inventories and other own costs capitalized		31,854		10,787
Cost of materials	(3)	(569,159)		(519,607)
Personnel expenses	(4)	(198,284)		(172,246)
Depreciation/amortization	(5)	(37,399)		(32,932)
Other operating expenses	(6)	(298,607)		(266,650)
Operating result			**135,285**	**119,228**
Net interest income		(5,338)		(4,386)
Other financial items		119		5,719
Financial result	(7)		**(5,219)**	**1,333**
Profit from ordinary activities			**130,066**	**120,561**
Income before taxes			**130,066**	**120,561**
Income taxes	(8)		(41,882)	(38,195)
Net income			**88,184**	**82,366**
Minority interests	(9)		0	0
Net income excl. minority interests			**88,184**	**82,366**
Earnings per share (EUR)[1]	(10)			
Preferred shares			1.26	1.18
Common shares			1.24	1.16

[1] Basic and diluted earnings per share.

Consolidated Balance Sheet

of HUGO BOSS Aktiengesellschaft, Metzingen as of December 31, 2004

Assets	Notes No.	2004 EUR thous.	2004 EUR thous.	2003 EUR thous.
Cash and cash equivalents	(11)	51,102		48,264
Trade receivables	(12)	153,797		173,325
Inventories	(13)	250,693		214,682
Other current assets	(14)	48,284		60,412
Current assets			**503,876**	**496,683**
Property, plant and equipment	(15)	201,591		186,996
Intangible assets	(16)	61,811		35,484
Investments		0		25
Deferred taxes	(8)	21,376		22,864
Other non-current assets	(14)	12,613		12,491
Non-current assets			**297,391**	**257,860**
Total assets			**801,267**	**754,543**

Equity and Liabilities	**Notes No.**	**2004**		**2003**
		EUR thous.	**EUR thous.**	**EUR thous.**
Current financial liabilities	(17)	91,294		115,122
Trade payables	(18)	42,734		34,200
Provisions	(19)	81,157		74,245
Other current liabilities	(20)	24,070		18,806
Current liabilities			**239,255**	**242,373**
Non-current financial liabilities	(17)	114,581		79,364
Deferred taxes	(8)	8,383		10,987
Provisions for pensions	(21)	13,966		19,699
Other non-current liabilities	(20)	3,106		2,614
Non-current liabilities			**140,036**	**112,664**
Subscribed capital	(22)	70,400		70,400
Treasury shares	(23)	(2,103)		0
Capital reserve	(24)	399		399
Retained earnings	(25)	286,347		259,209
Net income		88,184		82,366
Accumulated other equity	(26)	(21,251)		(12,868)
Equity			**421,976**	**399,506**
Minority interests	(9)		**0**	**0**
Total equity and liabilities			**801,267**	**754,543**

Statement of Changes in Equity

EUR thous.	Sub-scribed Capital	Treasury Shares	Capital Reserve	Retained Earnings: Legal Reserve	Retained Earnings: Other Revenue Reserves
Notes No.	**(22)**	**(23)**	**(24)**	**(25)**	**(25)**
January 1, 2003	**70,400**	**0**	**399**	**6,641**	**231,027**
Net income					
Allocated to retained earnings					74,686
Dividend payment					(53,145)
Market valuation of hedges					
Currency translation effects					
December 31, 2003	**70,400**	**0**	**399**	**6,641**	**252,568**
Net income					
Allocated to retained earnings					82,366
Dividend payment					(55,228)
Share repurchase		(2,103)			
Market valuation of hedges					
Currency translation effects					
December 31, 2004	**70,400**	**(2,103)**	**399**	**6,641**	**279,706**

Accumulated Other Equity				
Difference arising from currency translation (26)	Market valuation of hedges (26)	Net Income	Group Equity	Minority Interests (9)
(1,156)	**3,165**	**74,686**	**385,162**	0
		82,366	**82,366**	0
		(74,686)		
			(53,145)	
	(1,268)		**(1,268)**	
(13,609)			**(13,609)**	
(14,765)	**1,897**	**82,366**	**399,506**	0
		88,184	**88,184**	0
		(82,366)		
			(55,228)	
			(2,103)	
	(400)		**(400)**	
(7,983)			**(7,983)**	
(22,748)	**1,497**	**88,184**	**421,976**	0

Consolidated Statement of Cash Flows

	Notes No.	2004 EUR thous.	2003 EUR thous.
Net income		88,184	82,366
Depreciation/amortization		37,399	32,932
Change in provisions for pensions		(4,859)	(843)
Cash flow		120,724	114,455
Change in inventories		(30,239)	(1,788)
Change in receivables and other assets		46,684	(10,498)
Change in trade payables and other liabilities		(4,848)	147
Result from the sale of fixed assets		2,332	(243)
Change in other reserves		(8,786)	(10,971)
Cash flow from operating activities		**125,867**	**91,102**
Investments in tangible and intangible assets		(57,280)	(46,289)
Payments for acquisitions less cash and cash equivalents acquired		(8,684)	0
Proceeds from retirements of tangible and intangible assets		2,390	3,457
Cash flow from investing activities		**(63,574)**	**(42,832)**
Dividend preceding year		(55,228)	(53,145)
Share repurchase		(2,103)	0
Change in financial liabilities		(606)	(735)
Cash flow from financing activities		**(57,937)**	**(53,880)**
Exchange rate-related changes in cash and cash equivalents		(1,518)	(3,398)
Change in cash and cash equivalents		**2,838**	**(9,008)**
Cash and cash equivalents at the beginning of the period		48,264	57,272
Cash and cash equivalents at the end of the period	(11)	**51,102**	**48,264**

Segment Information by Product Area

	Menswear segment[1]		Womenswear segment	
	2004 EUR mill.	2003 EUR mill.	2004 EUR mill.	2003 EUR mill.
Sales	**1,099.1**	**1,003.3**	**69.3**	**50.8**
Depreciation/amortization[2]	(33.9)	(29.6)	(2.1)	(1.6)
Operating result	133.2	122.3	2.1	(3.5)
in % of sales	12.1	12,2	3.0	–
Non-recurring and exceptional items	1.3	0.5	0.1	0.4
Net income	**88.0**	**85.4**	**0.2**	**(3.0)**
in % of sales	8.0	8.5	0.3	–
Assets	759.4	714.2	41.9	40.3
Liabilities	276.5	253.6	102.8	101.4
Equity	482.9	460.6	(60.9)	(61.1)
Capital expenditure	**52.2**	**43,5**	**5.1**	**2.8**
Number of employees (Full-time equivalents)	**6,595**	**5,035**	**347**	**75**

[1] Existing men's collections business. Amounts attributable to the HUGO Woman product line have been included to simplify the presentation.
[2] Without amortization of goodwill.

Segment Information by Region

	2004		2003	
	EUR mill.	in %	EUR mill.	in %
Sales				
Germany	292.2	25	261.4	25
Other European countries	519.0	44	451.5	43
Americas	205.1	18	186.7	18
Asia/other regions	111.7	10	101.3	9
Royalties	40.4	3	53.2	5
Total	**1,168.4**	**100**	**1,054.1**	**100**
Assets				
Germany	316.3	39	297.9	39
Other European countries	304.4	38	262.0	35
Americas	124.8	16	128.2	17
Asia/other regions	48.9	6	46.7	6
Royalties	6.9	1	19.7	3
Total	**801.3**	**100**	**754.5**	**100**
Capital expenditure				
Germany	24.5	43	18.9	41
Other European countries	28.4	49	16.4	35
Americas	3.3	6	7.0	15
Asia/other regions	1.1	2	4.0	9
Total	**57.3**	**100**	**46.3**	**100**

Notes to the Consolidated Financial Statements for the Fiscal Year 2004

of HUGO BOSS Aktiengesellschaft, Metzingen

Basis of Presentation

The consolidated financial statements for HUGO BOSS Aktiengesellschaft for the year ending December 31, 2004, were prepared in accordance with International Financial Reporting Standards (IFRS). All International Financial Reporting Standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to fiscal year 2004 have been adhered to. The option of applying IFRS 3 to fiscal 2004 was not exercised. As a result, goodwill was amortized.

The requirements of Section 292a of the German Commercial Code (HGB) governing exemptions from the obligation to prepare consolidated financial statements in accordance with German commercial law have been met. Assessment of these requirements is based on the German Accounting Standard (Deutscher Rechnungslegungsstandard) No. 1 (DRS 1) issued by the German Accounting Standards Committee (DSRC).

To improve the 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.

The current consolidated financial statements contain the following accounting policies that differ from those applicable under German law:

– Accounting for internally produced intangible assets

– General obligation to report deferred tax assets and liabilities according to IAS 12; capitalization of deferred taxes from tax losses carried forward

– Start-up and business expansion expenses not capitalized

– Provisions are not created if the probability of their use is less than 50%

– Measurement of pension provisions is based on the projected unit credit method, taking into account future salary developments in accordance with IAS 19

– Full consolidation of companies deemed to be controlled enterprises according to SIC 12

– Measurement of inventories at full cost in accordance with IAS 2

– No recognition of tax credits on dividends until actual date of dividend payout according to IAS 12

– Measurement of financial instruments at their fair value pursuant to IAS 39

Scope of consolidation

The scope of consolidation comprises HUGO BOSS AG and the subsidiaries that HUGO BOSS AG controls. Generally, control exists 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, in Germany, these include the following companies (equity share 100% unless otherwise noted):

Baldessarini GmbH & Co. KG, Munich, Germany
BIL Leasing Verwaltungs-GmbH & Co. 869 KG, Gruenwald, Germany[1]
Eura 2000 S.A., Luxembourg, Luxembourg
Holy's GmbH, Stuttgart, Germany
HUGO BOSS (Schweiz) AG, Zurich, Switzerland
HUGO BOSS Australia Pty. Ltd., Preston, Australia
HUGO BOSS Belgium BVBA, Diegem, Belgium
HUGO BOSS Benelux B.V., Amsterdam, Netherlands
HUGO BOSS Benelux Retail B.V., Amsterdam, Netherlands
HUGO BOSS Calais SAS, Coquelles, France
HUGO BOSS Canada, Inc., Toronto, Canada
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 Elysees SAS, Paris, France
HUGO BOSS España, S. A., Madrid, Spain
HUGO BOSS Fashions, Inc., Wilmington, DE, USA
HUGO BOSS France Retail SAS, Paris, France
HUGO BOSS France SAS, Paris, France
HUGO BOSS Holding France SAS, Paris, France
HUGO BOSS Holding Netherlands B.V., Amsterdam, Netherlands
HUGO BOSS Holdings Pty. Ltd., Preston, Australia
HUGO BOSS Hong Kong Ltd., Hong Kong, China
HUGO BOSS Industries (Switzerland) Ltd., Coldrerio, Switzerland
HUGO BOSS International B.V., Amsterdam, Netherlands
HUGO BOSS Italia S.p.A., Corsico, 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 Germany Retail GmbH, Metzingen, Germany
HUGO BOSS Retail, Inc., Wilmington, DE, USA
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 AG, Novazzano, Switzerland

HUGO BOSS Shoes & Accessories Italia S.p.A., Morovalle, Italy
HUGO BOSS Shoes & Accessories, Inc., Wilmington, DE, USA
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 Troyes SAS, Paris, France
HUGO BOSS UK Limited, London, United Kingdom
HUGO BOSS USA, Inc., Wilmington, DE, USA
M.H. shoes & accessories GmbH, Duesseldorf, Germany
(since 2/7/2005: HUGO BOSS Beteiligungsgesellschaft mbH, Metzingen, Germany)
MSC Poland Sp.z.o.o., Radom, Poland
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstrasse KG, Duesseldorf, Germany[1]
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG, Duesseldorf, Germany[1]
SNC L'Apollinaire, Paris, France
The Joseph & Feiss Company, Wilmington, DE, USA
Werner Baldessarini Design GmbH, Metzingen, Germany
(since 1/10/2005: Baldessarini Design und Verwaltungs-GmbH, Munich, Germany)

[1] Investments with an equity share of 94%.

Changes in the scope of consolidation

Significant changes in the scope of consolidation arose during fiscal 2004 due to the takeover of the operational business of shoes and leather accessories, previously manufactured under license. The five companies acquired were consolidated for the first time as of January 1, 2004. Accordingly, the income statement items for the fiscal year 2004 and the assets and liabilities as of December 31, 2004, have been fully consolidated.

The purchase price (including incidental acquisition costs) amounted to EUR 9.9 million. The following assets and liabilities, measured at market value, were acquired:

	01/01/2004 EUR mill.
Cash and cash equivalents	1.2
Receivables and other assets	18.1
Inventories	8.3
Fixed assets	6.2
Financial liabilities	12.9
Trade payables and other liabilities	14.8
Provisions	16.1

The companies acquired have achieved sales of EUR 26.8 million for fiscal year 2004 (after elimination of intra-Group sales). It should be taken into account that sales of these companies are to be contrasted to royalties from the previous licensee for shoes and leather accessories in fiscal year 2003.

In addition, during 2004 further changes arose in the scope of consolidation of lesser significance to the net assets, financial position and results of operations of the HUGO BOSS Group.

The number of companies shown in the 2004 consolidated financial statements changed as follows in the year under review:

	2004	2003
Number of fully consolidated companies	54	43
Number of companies consolidated at equity	0	0
Total	**54**	**43**

Information concerning the majority shareholder

Marzotto S.p.A., Valdagno, Italy, holds the majority of the HUGO BOSS AG voting rights of Marzotto International N.V., Amsterdam, Netherlands, which it controls. The consolidated financial statements of HUGO BOSS are included in the consolidated financial statements of Marzotto S.p.A.

Principles of consolidation

As part of the initial consolidation of a subsidiary, the Group's cost of acquiring the shareholding is compared to the Group's share in the book value of the share capital of the company concerned. As a general rule, the difference between the cost of acquisition and the Group's share of capital – where such difference is based on undisclosed reserves or charges – is fully allocated to the assets and liabilities of the subsidiary in question. Any remaining balance is capitalized as goodwill and amortized over a maximum period of 20 years commensurate with its useful economic life.

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

Currency translation

The functional currency of the HUGO BOSS Group is the euro. The financial statements of foreign companies of the Group (which are economically independent units) were converted to euro based on the functional currency concept according to IAS 21. In principle the functional currency is the local currency of the respective country. However, the reporting currency of HUGO BOSS Textile Industry Ltd. is the euro, because major business transactions of this company are negotiated in this currency. This company is a foreign business operation, which is integrated into the business operation of the reporting company. Consequently there is no need to convert these financial statements.

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 recognition (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 currency adjustment resulting from the translation of equity at historical rates was similarly offset and recorded in accumulated other equity.

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

Country	Currency	Average Rate		Rate at Reporting Date	
	1 EUR =	2004	2003	2004	2003
Australia	AUD	1.6891	1.7475	1.7567	1.6744
Brazil	BRL	3.6344	3.4954	3.6162	3.5976
Denmark	DKK	7.4399	7.4300	7.4357	7.4434
Great Britain	GBP	0.6786	0.6917	0.7086	0.7039
Hong Kong	HKD	9.6841	8.7783	10.5760	9.7001
Japan	JPY	134.3966	131.1733	141.2600	133.6600
Canada	CAD	1.6169	1.5849	1.6462	1.6384
Mexico	MXN	14.0347	12.1645	15.2411	14.0214
Sweden	SEK	9.1259	9.1342	8.9992	9.0704
Switzerland	CHF	1.5441	1.5172	1.5456	1.5599
U.S.A.	USD	1.2433	1.1267	1.3603	1.2499

Key indicators of significant companies of the HUGO BOSS Group

Company	Head Office	Result		Equity	
	thous.	2004 EUR	2003 EUR	2004 EUR	2003 EUR
HUGO BOSS AG	Metzingen, Germany	594,741[2]	43,688[2]	720,007	186,056
HUGO BOSS USA, Inc.[1]	Wilmington, DE, USA	6,416	(7,270)[3]	68,351	44,755
HUGO BOSS France SAS	Paris, France	(2,445)	5,774	40,925	43,370
HUGO BOSS UK Limited	London, United Kingdom	12,433	8,732	9,874	13,581
HUGO BOSS Benelux B.V.	Amsterdam, Netherlands	7,626	8,172	55,231	37,605
HUGO BOSS Italia S.p.A.	Corsico (Milan), Italy	651	201	14,862	2,011
HUGO BOSS Services (Svizzera) S.A.[1]	Besazio, Switzerland	19,203	7,701	58,774	39,818
HUGO BOSS Scandinavia AB	Stockholm, Sweden	2,672	2,228	6,171	3,434
HUGO BOSS Canada, Inc.	Toronto, Canada	1,950	1,048	11,590	9,721
HUGO BOSS Hong Kong Ltd.	Hong Kong, China	7,280	6,221	4,644	3,774
HUGO BOSS Japan K.K.	Tokyo, Japan	(2,193)	(573)	1,382	3,666
HUGO BOSS España S.A.	Madrid, Spain	1,148	741	5,002	3,854
HUGO BOSS (Schweiz) AG	Zurich, Switzerland	2,636	2,737	2,953	3,118
HUGO BOSS Australia Pty. Ltd.	Preston, Australia	1,266	1,192	16,576	9,993
HUGO BOSS Mexico S.A. de C.V.	Mexico City, Mexico	2,037	1,872	4,569	5,166
HUGO BOSS France Retail SAS	Paris, France	226	(177)	884	657
HUGO BOSS do Brasil Ltda.	São Paulo, Brazil	(749)	(31)	1,111	(810)

Company	Head Office	Result		Equity	
	thous.	2004 EUR	2003 EUR	2004 EUR	2003 EUR
HUGO BOSS International B.V.	Amsterdam, Netherlands	30,653[4]	39,368[4,5]	211,009	180,391
HUGO BOSS Textile Industry Ltd.	Izmir, Turkey	(1,619)	2,178	5,815	7,434
M.H. shoes & accessories GmbH	Duesseldorf, Germany	2,328		(1,253)	
HUGO BOSS Shoes & Accessories Italia S.p.A.	Morovalle, Italy	2,060		6,060	
HUGO BOSS Shoes & Accessories AG	Novazzano, Switzerland	(946)		1,441	
MSC Poland Sp.z.o.o.	Radom, Poland	(15)		1,520	
HUGO BOSS Trade Mark Management GmbH & Co. KG	Metzingen, Germany	5,587		24,463	

1 Subgroup financial statement.

2 Profits prior to appropriation of profit arising from the profit transfer agreement with Holy's GmbH; profits include proceeds from the sale of Group investments totaling EUR 572,721 thousand (prior year: EUR 915 thousand) and in prior year dividend receipts amounting EUR 15,000 thousand.

3 Result includes a one-time expense related to the recording of a pension fund provision in the amount of EUR 11.905 thousand before taxes (previously accounted for at the consolidated level).

4 Profits include dividends receipts amounting EUR 28,992 thousand (2004) and EUR 25,404 thousand (2003).

5 Result includes proceeds from the sale of a Group investment amounting to EUR 7,737 thousand and devaluations of accounts reflecting investments in consolidated companies of EUR 1,164 thousand.

Accounting policies

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

Recognition of income and expenses

Sales revenues 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 reasonably be established. Sales are recorded adjusted for any discounts.

Proceeds from the sale of goods are recorded at the point of delivery and passage of risks and opportunities to the buyer.

Interest is recorded pro rata according to the effective interest yield of the asset.

License agreements are recorded in line with the conditions and in the period of the underlying contract.

Based on the matching principle, operating expenses are charged to income on the date of performance or at the time such expenses are incurred.

Receivables and other assets

Receivables and other assets are reported at their nominal value or at their cost of purchase. Appropriate provisions are created for all apparent 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 the cost of purchase calculated on the basis of average cost. Work-in-progress and finished goods are measured at the cost of conversion. Cost of conversion includes fixed and variable overhead costs based on the normal utilization rate of the production facilities. Finance charges have not been taken into account.

In the event that purchase or conversion cost of the inventories exceeds the realizable selling price minus costs incurred prior to the sale, the lower amount is used.

Property, plant and equipment

Tangible assets used in business operations for more than one year are measured at purchase or conversion cost less depreciation. The cost of conversion includes all expenditures that are directly attributable to the production process and an appropriate share of overhead related to production. Finance charges 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 reported.

Depreciation of buildings is in principle based on a useful life of 30 years; depreciation of buildings and 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, useful life can be from 5 to 15 years, for other plant and office furniture and equipment from 2 to 15 years.

Terms of useful life 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 commercial title to the leased asset is accorded to the lessee pursuant to IAS 17 if said party essentially bears all the risks and rewards associated with the leased asset (finance lease). Depreciation methods and terms of useful life correspond to those of comparable purchased assets. Capitalization generally takes place when the lease is signed and at the cost of purchase. Direct costs incurred at lease inception are capitalized. Corresponding lease obligations are shown under other liabilities. The interest portion of the lease payments is reported in the consolidated income statement for the term of the lease.

In the event that, under leases, the commercial title lies with the lessor (operating lease), then the leased assets are to be reported by the lessor. The costs incurred in earning the related lease income are reported in full as expenses.

Intangible assets

Intangible assets which are acquired or internally produced are capitalized, provided it can be reasonably assumed that the use of the asset will entail a future economic benefit and the cost of the asset can be reliably measured. Acquired intangible assets are carried at cost of purchase, and the straight-line method is applied for amortization over a useful life of three to four years. Internally produced intangible assets that are of probable future benefit to the Group and that can be reliably measured are capitalized at the cost of conversion and amortized using the straight-line method over a period of four years. The cost of conversion includes all expenditures that are directly attributable to production of the asset and a proportionate share of overhead related to production.

Finance charges are not capitalized. Trademarks acquired for a consideration are capitalized and amortized using the straight-line method over a 15-year period. Goodwill from consolidation is amortized over its estimated useful life, i.e. a period not exceeding 20 years. Terms of useful life and depreciation methods are reviewed at the end of each fiscal year.

Amortization of goodwill is included in operating results.

Financial instruments

Financial instruments are presented according to IAS 39. Accordingly, financial assets, to the extent relevant to the HUGO BOSS Group, are classified as follows:

(a) financial assets held for trading,

(b) loans and receivables extended by the enterprise.

Purchases and sales of financial assets are recognized according to the accounting method employed at the respective trading date. When a financial asset is initially recorded, it is recognized at the cost of purchase that corresponds to the fair value of the consideration, including transaction costs.

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

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 basic transactions (micro-hedging). Requirements of IAS 39 defining hedging transactions are complied with when engaging in such transactions.

According to IAS 39, all derivative financial instruments are to be reported at market value at the reporting date, 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 fluctuations in market value do not impact income for the period throughout the term of the derivative. Market value fluctuations are reported in the appropriate reserve account without affecting income. The accumulated equity value is recognized as a profit or loss for the period in which the hedged cash flow falls due.

Changes in the market value of derivative financial instruments classified as trading instruments according to IAS 39 are reported in the income statement.

It is Group policy to use effective derivatives exclusively to hedge interest rate and currency exposure. Material and formal requirements under IAS 39 regarding treatment as hedging transactions are satisfied both at the time that the hedging contract was entered into and at the balance sheet date.

Impairments 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.

In the event that the value of the intangible assets or property, plant and equipment determined according to the principles above exceeds the amount recoverable at the balance sheet date, the carrying amount of the assets is written down. The recoverable amount is considered to be the greater of the net selling price or the present value of estimated future cash flows from continuing use of the asset. In the event that reasons for special write-downs cease to exist, reversal of impairment losses must be accounted for under amortized costs.

Financial assets are reviewed for impairment at each balance sheet date. If impairment is likely, it is recognized in the income statement. An impairment loss that has been recognized is reversed, if 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 any adjustment for deferred taxes. In accordance with IAS 12, deferred tax assets and liabilities have been provided for in the case of all temporary differences between the carrying amounts in individual companies' statements for tax purposes and the carrying amounts in the consolidated financial statements according to IAS, as well as for specific consolidation measures. The 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 valued according to the expected tax rates for the period in which the temporary differences will probably be reversed.

Liabilities

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

Provisions

Provisions have been set up, as a result of a past event, wherever a legal or de facto obligation currently exists towards third parties that is likely to result in a future decrease in assets and that can be reliably estimated.

Provisions are reviewed at each balance sheet date and adjusted to the current best estimate. If the interest effect is material, the provision equals the net present value of the expenses required to fulfill 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 benefit and pension adjustments. The present value of deferred benefits at year-end is compared to the fair value of plan assets reported as funds. Actuarial gains and losses are generally netted and immediately recorded against income.

Contingent liabilities and contingent claims

Contingent liabilities are not reported in the accounts. They are included in the notes, unless there is a very low probability that they will result in an outflow of economic resources. Equally, contingent claims are not reported. They are listed in the notes, in the event that an associated inflow of economic resources is considered likely.

Subsequent events

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

Notes to the Income Statement

(1) Sales

Classified by brand and region

2004	BOSS Man EUR thous.	BOSS Woman EUR thous.	HUGO EUR thous.	BALDESSARINI EUR thous.	EUR thous.
Germany	224,586	17,979	43,844	5,787	**292,196**
Other European countries	451,769	26,432	35,215	5,613	**519,029**
Americas	184,738	6,254	11,940	2,131	**205,063**
Other regions	95,055	12,058	3,218	1,297	**111,628**
Royalties	19,002	6,587	12,359	2,491	**40,439**
	975,150	69,310	106,576	17,319	**1,168,355**

2003	BOSS Man EUR thous.	BOSS Woman EUR thous.	HUGO EUR thous.	BALDESSARINI EUR thous.	EUR thous.
Germany	203,399	12,367	39,894	5,686	**261,346**
Other European countries	396,192	19,931	29,154	6,251	**451,528**
Americas	170,461	4,533	8,904	2,824	**186,722**
Other regions	89,779	7,319	3,110	1,120	**101,328**
Royalties	30,368	6,698	13,188	2,934	**53,188**
	890,199	50,848	94,250	18,815	**1,054,112**

(2) Other Operating Income

	2004 EUR thous.	2003 EUR thous.
Income on marketing expenses charged	21,002	21,164
Income on other expenses charged	5,347	11,025
Non-recurring income	10,063	9,335
Other operating income	2,113	4,240
	38,525	**45,764**

Income on marketing expenses charged is largely made up of charges for shop outfitting and marketing materials, as well as for advertising and sponsorship activities.

Non-recurring income resulted primarily from the liquidation of provisions.

(3) Cost of Materials

	2004 EUR thous.	2003 EUR thous.
Raw materials and supplies	257,860	199,399
Purchased merchandise	234,363	251,929
Purchased services	76,936	68,279
	569,159	**519,607**

Cost of materials include exchange gains (after netting against exchange losses) incurred as a result of sales activities in the amount of EUR 55 thousand (prior year: EUR 9,751 thousand).

These exchange gains or losses result primarily from exchange rate changes between the actual date of exchange and the payment date (at the cash price) and from valuation as per the balance sheet date.

(4) Personnel Expenses

	2004 EUR thous.	2003 EUR thous.
Wages and salaries	167,464	143,747
Social security	28,621	25,007
Expenditure for retirement benefits and aid	2,199	3,492
	198,284	**172,246**

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

The number of employees changed as follows:

	2004	2003
Industrial employees	4,144	2,753
Commercial and administrative employees	2,798	2,357
	6,942	**5,110**

The number of employees was calculated as the number of employees as of December 31, 2004, taking into account part-time employees on a pro rata basis.

(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 amounts to EUR 37,399 thousand (prior year: EUR 32,932 thousand).

Goodwill amortization for the year under review amounts to EUR 1,392 thousand (prior year: EUR 408 thousand).

(6) Other Operating Expenses

	2004 EUR thous.	2003 EUR thous.
Marketing expenses	93,427	92,469
Other selling expenses	100,469	87,639
General and administrative costs	31,266	32,105
Operating expenses	28,930	25,546
Other operating expenses	36,253	23,510
Non-recurring expenses	8,262	5,381
	298,607	**266,650**

Marketing expenses are comprised mainly of costs incurred for advertising, trade fairs, sponsorship activities and commercial marketing.

The key components of other selling expenses are commission, duties, freight costs – i.e. variable sales-related costs – along with rental and collection production costs.

General and administrative costs consist largely of legal and consulting fees, IT operating costs, maintenance costs and rents.

Other operating expenses include mainly provisions relating to receivables, other personnel costs, credit card fees, and hedging transaction fees.

Other operating expenses include other taxes in the amount of EUR 1,822 thousand (prior year: EUR 1,956 thousand).

(7) Financial Result

	2004 EUR thous.	2003 EUR thous.
Net interest income		
Other interest and similar income	1,698	1,858
Interest and similar expenses	(7,036)	(6,244)
	(5,338)	(4,386)
Other financial items		
Gains on currency translation	9,094	14,021
Losses on currency translation	(8,975)	(8,302)
	119	5,719
	(5,219)	**1,333**

The financial result comprises exchange rate gains and losses incurred in the course of financing activities of the Group.

(8) Income Taxes

	2004 EUR thous.	2003 EUR thous.
Current taxes	44,347	37,929
Deferred taxes	(2,465)	266
	41,882	**38,195**

Deferred taxes are calculated on the basis of tax rates which apply or are 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 37.2% (prior year: 37.2%). Tax rates abroad range between 0% and 40%.

The following table shows a reconciliation between anticipated income tax expenditure which would theoretically result given the application at Group level of the current domestic income tax rate of 37.2% (prior year: 37.2%) and the Group's actual income tax expenditure reported.

	2004 EUR thous.	2003 EUR thous.
Pre-tax result	130,066	120,561
Anticipated income tax	48,383	46,537
Tax effect of non-deductible expenses and tax-exempt income	582	3,160
Tax rate-related deviation	(8,583)	(9,117)
Tax refunds/back taxes	(1,107)	(3,202)
Valuation allowance on deferred tax assets	1,389	0
Amortization of goodwill	517	152
Other deviations	701	665
Income tax expenditure carried	41,882	38,195
Income tax load	32.2%	31.7%

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

	2004		2003	
	Accruals EUR thous.	Deferrals EUR thous.	Accruals EUR thous.	Deferrals EUR thous.
Provisions	5,150	(18)	4,050	(19)
Loss carryforwards	4,736	0	9,264	0
Inventory measurement	5,436	(5,454)	4,204	(4,965)
Recognition and measurement of fixed assets	1,667	(1,009)	1,418	(2,972)
Receivables measurement	5,991	(1,191)	4,127	(519)
Market valuation of financial instruments	388	(174)	0	(2,152)
Other differences in recognition and measurement	680	(537)	193	(360)
	24,048	(8,383)	23,256	(10,987)
Valuation allowance	(2,672)	–	(392)	–
	21,376	**(8,383)**	**22,864**	**(10,987)**

Provisions have been made with respect to deferred taxes, if there are doubts as to their realization. To determine these adjustments, all positive and negative factors that might impact the achievement of sufficient future income levels have been taken into consideration.

(9) Minority Interests

The consolidated financial statements contain data of companies in which HUGO BOSS AG holds less than 100% of the equity. In accordance with IAS 27, the share of negative equity accruing to the minority interests and the share of losses accruing to the minority interests are offset against the majority holding in the consolidated equity.

(10) Earnings per Share

In accordance with IAS 33, the earnings per share (EPS) figure is calculated by dividing the consolidated net income or loss for the period by the weighted average number of common shares outstanding during the fiscal year. Neither at December 31, 2004, nor at December 31, 2003, were shares outstanding that could have diluted earnings per share.

	2004	**2003**
Net income in EUR mill.	88.2	82.4
Average number of shares outstanding[1]		
Common shares	35,785,794	35,860,000
Preferred shares	34,540,000	34,540,000
EPS common shares in EUR[2]	1.24	1.16
EPS preferred shares in EUR[2]	1.26	1.18

[1] Includes effects of share buy back program.
[2] Stock Option Program: only phantom stocks issued, so no dilution of number of outstanding shares.

Notes to the Balance Sheet

(11) Cash and Cash Equivalents

	2004 EUR thous.	2003 EUR thous.
Checks/ec-cash	449	566
Cash in hand	315	774
Balances with banks and other financial assets	50,338	46,924
	51,102	**48,264**

(12) Trade Receivables

	2004 EUR thous.	Remaining term more than 1 year EUR thous.	2003 EUR thous.	Remaining term more than 1 year EUR thous.
Trade receivables	153,797	25,413	173,325	4,496

On December 31, 2004, the allowance for doubtful accounts amounted to EUR 37,804 thousand (December 31, 2003: EUR 23,487 thousand).

(13) Inventories

Inventories are broken down as follows:

	2004 EUR thous.	2003 EUR thous.
Raw materials and supplies	52,063	48,819
Work in progress	11,079	9,461
Finished goods and merchandise	187,502	156,360
Payments on account	49	42
	250,693	**214,682**

The carrying amount of inventories shown at the lower net realizable value is EUR 80,745 thousand (prior year: EUR 59,943 thousand).

(14) Other Assets

EUR thous.	2004			2003		
		thereof: short-term	thereof: long-term		thereof: short-term	thereof: long-term
Tax claims and prepayments	34,309	31,841	2,468	41,681	40,170	1,511
Other assets	26,588	16,443	10,145	31,222	20,242	10,980
	60,897	**48,284**	**12,613**	**72,903**	**60,412**	**12,491**

Other assets are comprised chiefly of receivables from suppliers and rent deposits, along with positive market values in financial derivatives totaling EUR 4,262 thousand (prior year: EUR 6,015 thousand) are included. Other assets also include advance payments totaling EUR 2,911 thousand (prior year: EUR 2,530 thousand).

Fixed Assets

EUR thous.	Property, plant and equipment	Intangible assets	Financial assets	Total fixed assets
Costs of acquisition				
Status at 1/1/04	327,152	61,738	25	388,915
Change in the scope of consolidation	12,901	22,301	0	35,202
Currency translation effects	(4,951)	(177)	0	(5,128)
Additions	46,070	11,210	0	57,280
Disposals	(26,185)	(7,027)	(25)	(33,237)
Status at 12/31/04	354,987	88,045	0	443,032
Depreciation/amortization				
Status at 1/1/04	140,156	26,254	0	166,410
Change in the scope of consolidation	6,609	245	0	6,854
Currency translation effects	(2,358)	(160)	0	(2,518)
Additions	30,562	6,837	0	37,399
Disposals	(21,573)	(6,942)	0	(28,515)
Status at 12/31/04	153,396	26,234	0	179,630
Carrying amount at 12/31/04	**201,591**	**61,811**	**0**	**263,402**
Carrying amount at 12/31/03	**186,996**	**35,484**	**25**	**222,505**

Land charges exist in conjunction with land and buildings in the amount of EUR 42.8 million (prior year: EUR 43.5 million).

(15) Property, Plant and Equipment

EUR thous.	Land and buildings	Technical equipment and machinery	Other equipment, factory and office equipment	Prepayments made and construction in progress	Total
Cost of acquisition					
Status at 1/1/04	93,687	32,617	194,916	5,932	327,152
Change in the scope of consilidation	4,078	3,046	5,760	17	12,901
Currency translation effects	(946)	(628)	(3,349)	(28)	(4,951)
Additions	3,979	1,761	36,415	3,915	46,070
Disposals	(120)	(2,078)	(23,829)	(158)	(26,185)
Transfers	4,246	0	2,741	(6,987)	0
Status at 12/31/04	104,924	34,718	212,654	2,691	354,987
Depreciation					
Status at 1/1/04	23,223	17,981	98,952	0	140,156
Change in the scope of consilidation	829	1,856	3,924	0	6,609
Currency translation effects	(416)	(457)	(1,485)	0	(2,358)
Additions	3,533	3,221	23,808	0	30,562
Disposals	(103)	(1,868)	(19,602)	0	(21,573)
Status at 12/31/04	27,066	20,733	105,597	0	153,396
Carrying amount at 12/31/04	**77,858**	**13,985**	**107,057**	**2,691**	**201,591**
Carrying amount at 12/31/03	**70,464**	**14,636**	**95,964**	**5,932**	**186,996**

Charges totaling EUR 450 thousand were made against property, plant and equipment to reflect impairment (prior year: EUR 1,332 thousand).

Finance Leases

The total of leased assets that may be recorded as Group commercial property in accordance with IAS 17 is EUR 4,507 thousand (prior year: EUR 5,253 thousand).

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

	Payable 2005 EUR thous.	Payable 2006–2009 EUR thous.	Payable after 2009 EUR thous.
Lease payments	709	2,591	3,762
Present value	448	1,677	3,101

Operating Leases

In addition to finance leases a substantial number of leases exist that qualify as operating leases due to their commercial content; consequently, the leased asset is recognized as belonging to the lessor.

Payments falling due in subsequent periods under operating leases in existence at the reporting date are shown in other notes (28).

(16) Intangible Assets

EUR thous.	Franchises, trademarks, patents, licenses[1]	Proprietary software	Goodwill	Total
Costs of acquisition				
Status at 1/1/04	48,015	5,603	8,120	61,738
Change in the scope of consolidation	2,606	0	19,695	22,301
Currency translation effects	(177)	0	0	(177)
Additions	11,210	0	0	11,210
Disposals	(7,027)	0	0	(7,027)
Status at 12/31/04	54,627	5,603	27,815	88,045
Amortization				
Status at 1/1/04	22,971	2,452	831	26,254
Change in the scope of consolidation	245	0	0	245
Currency translation effects	(160)	0	0	(160)
Additions	4,394	1,051	1,392	6,837
Disposals	(6,942)	0	0	(6,942)
Status at 12/31/04	20,508	3,503	2,223	26,234
Carrying amount at 12/31/04	**34,119**	**2,100**	**25,592**	**61,811**
Carrying amount 12/31/03	**25,044**	**3,151**	**7,289**	**35,484**

[1] And similar rights, including licenses.

(17) Financial Liabilities

Financial liabilities includes all the interest-bearing obligations in existence at the relevant reporting date. It is comprised of the following:

	2004 EUR thous.	2003 EUR thous.
Short-term financial liabilities	91,294	115,122
Long-term financial liabilities	114,581	79,364
	205,875	**194,486**

	2004 EUR thous.	With a remaining term up to 1 year EUR thous.	2003 EUR thous.	With a remaining term up to 1 year EUR thous.
Due to banks	195,722	89,963	184,467	114,722
Other financial liabilities	10,153	1,331	10,019	400
	205,875	**91,294**	**194,486**	**115,122**

Other financial liabilities include liabilities from finance leases totaling EUR 5,226 thousand (prior year: EUR 6,079 thousand).

The following schedules show the maturities and conditions of financial liabilities:

Due to Banks

Remaining term	**Weighted average interest rate**	**Carrying amount 2004 EUR thous.**	**Weighted average interest rate**	**Carrying amount 2003 EUR thous.**
up to 1 year	2.46%	89,963	2.22%	114,722
1 to 5 years	3.04%	70,813	2.21%	33,310
more than 5 years	5.96%	34,946	5.91%	36,435

Other Financial Liabilities

Remaining term	Weighted average interest rate	Carrying amount 2004 EUR thous.	Weighted average interest rate	Carrying amount 2003 EUR thous.
up to 1 year	5.56%	1,331	5.37%	400
1 to 5 years	5.23%	2,043	5.50%	2,381
more than 5 years	5.12%	6,779	5.13%	7,238

(18) Trade Payables

	With a remaining term			
2004	**up to 1 year EUR thous.**	**from 1 to 5 years EUR thous.**	**of more than 5 years EUR thous.**	**Total EUR thous.**
Trade payables	42,734	0	0	42,734
	42,734	**0**	**0**	**42,734**

	With a remaining term			
2003	**up to 1 year EUR thous.**	**from 1 to 5 years EUR thous.**	**of more than 5 years EUR thous.**	**Total EUR thous.**
Trade payables	34,148	52	0	34,200
	34,148	**52**	**0**	**34,200**

(19) Provisions

Provisions include:

	2004 EUR thous.	2003 EUR thous.
Tax provisions	9,125	15,653
Other provisions	72,032	58,592
	81,157	**74,245**

Tax provisions contain current income tax obligations. The note on deferred taxes can be found in the notes to the income statement under "(8) Income Taxes".

During fiscal 2004, other provisions have changed as follows:

	Status 1/1/04	Change in the scope of consol-idation	Currency trans-lation	Addition	Use	Release	Status 31/12/04
Outstanding invoices for goods and services	22,616	7,540	9	20,331	(26,537)	(1,351)	22,608
Provisions for personnel expenses	17,836	147	(288)	18,266	(11,296)	(267)	24,398
Sales agents' commissions and settlement payments	3,174	620	(27)	4,714	(3,454)	(20)	5,007
Costs of litigation, pending and impending legal disputes	5,633	0	(44)	5,873	(1,955)	(2,023)	7,484
Other provisions	9,333	4,626	(141)	11,715	(8,378)	(4,620)	12,535
	58,592	**12,933**	**(491)**	**60,899**	**(51,620)**	**(8,281)**	**72,032**

Provisions for personnel expenses refer mainly to profit sharing and bonuses, severance claims, outstanding vacation entitlements, wages and salaries.

The provision for litigation costs and pending legal disputes include litigation costs for trademark protection.

The other provisions are comprised chiefly of provisions for returned merchandise.

(20) Other Liabilities

EUR thous.	2004			2003		
		thereof: short-term	thereof: long-term		thereof: short-term	thereof: long-term
Liabilities to affiliated companies	1,013	1,013	0	2,290	2,290	0
Other liabilities	26,163	23,057	3,106	19,130	16,516	2,614
from taxes	[8,754]	[8,754]	[0]	[5,257]	[5,257]	[0]
from social security	[5,571]	[5,571]	[0]	[4,440]	[4,440]	[0]
	27,176	**24,070**	**3,106**	**21,420**	**18,806**	**2,614**

Liabilities to affiliated companies include trade payables in the amount of EUR 1,013 thousand (prior year: EUR 2,290 thousand).

In addition to taxes and social security, other liabilities primarily include liabilities arising from payroll accounting obligations.

Other liabilities also include the negative market values of financial derivatives totaling EUR 4,201 thousand (prior year: EUR 768 thousand).

(21) Provisions for Pensions

	2004 EUR thous.	2003 EUR thous.
Provisions for pensions	11,065	18,519
Provisions for similar obligations	2,901	1,180
	13,966	**19,699**

The reduction in pension provisions resulted in particular from the liquidation of a pension fund for former U.S. employees in fiscal 2004.

Pension provisions are created for obligations based on pension rights and for ongoing payments to eligible current and former employees of the HUGO BOSS Group. Benefit commitments based on the retirement plans are determined largely by the period of service of the employees in question.

The funding of the company retirement plan is covered by plan assets held by HUGO BOSS Unterstützungskasse e.V., by reinsurance and by the Group's pension provisions.

The computation of the pension expenditure is based on planned service cost and anticipated return on the plan assets. Taking into account the principles of computation set forth in IAS 19, the following summarizes the current funding status of pension commitments:

	2004 EUR thous.	2003 EUR thous.
Change in benefit obligation		
Benefit obligation on January 1	22,247	25,774
Service cost	1,137	1,700
Interest cost	1,368	545
Actuarial gains/losses	1,086	(117)
Benefits paid	(363)	(271)
Currency translation	0	(2,659)
Other decrease in benefit obligation	(10,748)	(2,725)
Benefit obligation on December 31	14,727	22,247
Change in plan assets		
Fair value of plan assets on January 1	3,987	3,857
Return on plan assets	217	298
Benefits paid	(273)	(168)
Fair value of plan assets on December 31	3,931	3,987
Funding status of the benefits funded by plan assets	**10,796**	**18,260**
Pensions funded by provisions	269	259
Provisions for pensions	**11,065**	**18,519**

Pension expenses consist of service costs plus interest expense and have been included under personnel expenses.

Pension obligations have been determined based on the following assumptions:

Calculation basis	2004	2003
Discount rate	4.90%	5.60%
Rate of compensation increase	1.75%	1.75%

Pension obligations for Germany were computed using the biometric principles according to the mortality tables compiled by Prof. Dr. Klaus Heubeck in 1998.

Equity

Development of equity is shown in the statement of changes in equity on pp.122 and 123.

(22) Subscribed Capital

At December 31, 2004, subscribed capital of HUGO BOSS AG totaled EUR 70,400,000, broken down as follows:

	2004 EUR thous.
Common bearer shares 35,860,000 shares	35,860
Non-voting preferred bearer shares 34,540,000 shares	34,540
	70,400

The Managing Board of HUGO BOSS AG may dispose of authorized capital of EUR 35,200,000 until May 18, 2009, with the consent of the Supervisory Board. Authorized capital allows share capital to be raised on one or several occasions by issuing new common or preferred shares.

(23) Treasury Shares

HUGO BOSS AG bought back a total of 124,265 common shares at an average price of EUR 16.92 during the period January to December 2004. This represents a 0.2% share of subscribed capital or EUR 124,265 of subscribed capital.

(24) Capital Reserve

The capital reserve contains premiums on the issue of shares.

(25) 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.

(26) Accumulated Other Equity

Accumulated other equity contains adjustments arising from the translation of the financial statements of foreign subsidiaries of EUR –22,748 thousand (prior year: EUR –14,765 thousand) and the effects of the measurement of financial instruments after taxes, neither of which is taken to income. Deferred taxes not impacting the income statement amount to EUR –788 thousand (prior year: EUR –1,126 thousand).

Miscellaneous

Based on the German Stock Corporation Act, the dividend payout to shareholders is established from net income for the year as reported in the consolidated financial statements of HUGO BOSS AG. The amount for distribution for 2004 proposed to the Shareholders' Meeting of HUGO BOSS AG is EUR 59,377 thousand. This corresponds to EUR 0.84 per common share and 0.85 per preferred share.

Other Notes

(27) Contingent Liabilities

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

	2004 EUR thous.	2003 EUR thous.
Liabilities from the negotiation and transfers of bills	253	2,066
Contingent liabilities from the provision of collateral for third-party liabilities	588	1,027
secured by mortgages	[191]	[447]
Other contingent liabilities	4,538	4,538
	5,379	7,631

Other contingent liabilities include a possible future tax charge of EUR 4.5 million as an amendment to a law that may be enacted in the Netherlands.

(28) Other Financial Obligations

2004	Due 2005 EUR thous.	Due 2006–2009 EUR thous.	Due after 2009 EUR thous.	Total EUR thous.
Sum of future minimum leasing payments (operating leases)	45,606	161,403	86,681	293,690
Other obligations	349	172	48	569
	45,955	**161,575**	**86,729**	**294,259**
Purchase commitment for investments in tangible and intangible fixed assets	8,431	0	0	8,431

2003	Due 2004 EUR thous.	Due 2005–2008 EUR thous.	Due after 2008 EUR thous.	Total EUR thous.
Sum of future minimum leasing payments (operating leases)	41,705	146,793	105,811	294,309
Other obligations	3,954	3,697	62	7,713
	45,659	**150,490**	**105,873**	**302,022**
Purchase commitment for investments in tangible and intangible fixed assets	7,998	1,273	0	9,271

(29) Hedging Policy and Financial Derivatives

As an internationally active company, HUGO BOSS is subject to risks arising from movements in exchange rates and interest rates as the 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 that the counterparty may default. HUGO BOSS reduces this risk by confining such transactions exclusively to banks with impeccable credit ratings.

HUGO BOSS is represented by subsidiaries in the most important core markets. These subsidiaries market products within a specified area to local customers. The subsidiaries place the orders that result exclusively within the Group.

Intra-group orders are as a rule denominated in local currency, in order to concentrate the exchange rate risk at HUGO BOSS AG in Germany. Currency exposures arise from cash flows denominated variously in the local currencies of subsidiaries, in Euro (HUGO BOSS AG's functional currency) and in Swiss francs, the functional currency of HUGO BOSS Industries (Switzerland) Ltd. Hedging transactions are undertaken centrally by the group's Treasury Department.

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

In particular, HUGO BOSS hedges cash flows from countries in which it maintains extensive operations.

These countries include the U.S.A., Great Britain, Switzerland, Canada and Australia. The terms of the forward exchange deals and currency options have maturities ranging from 12 to 15 months from the contract date as a rule, with 18 months the maximum. For the most part those cash flows anticipated to occur within 18 months arise from intra-group sales.

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 notional amounts and fair values of financial derivatives:

	2004		2003	
EUR thous.	Notional amount	Fair values	Notional amount	Fair values
Currency hedging contracts	136,520	(9)	152,146	5,262
Interest hedging contracts	25,730	70	16,002	(15)
	162,250	**61**	**168,148**	**5,247**

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

Market values of financial derivatives are carried as other assets or other liabilities. They do not reflect any contrary movements in the value of the hedged item. Moreover, fair values do not necessarily reflect amounts that will be realized under market conditions that may prevail in future.

Other assets or liabilities reflects the market value of transactions designed to cover interest rate risks with a value of EUR 70 thousand (prior year: EUR –15 thousand).

At December 31, 2004, after deduction of deferred taxes, the positive impact of the market valuation of financial derivatives totaling EUR 1,497 thousand (prior year: EUR 1,897 thousand) was reported as a deferral in the equity account.

(30) Notes to the Consolidated Statement of Cash Flows

The cash flow statement shows the changes that have occurred in the cash holdings of the HUGO BOSS Group during the year under review, in the form of cash inflows and cash outflows. In accordance with IAS 7, the 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 of EUR 1,698 thousand (2003: EUR 1,858 thousand) and interest paid of EUR 6,638 thousand (2003: EUR 6,098 thousand). Income tax payments amounted to EUR 39,780 thousand (2003: EUR 33,634 thousand).

Cash holdings viewed in the cash flow statement include all the cash and cash equivalents appearing on the balance sheet, in other words, cash on hand, checks and cash in banks.

(31) Notes on Segment Reporting

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

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 segments. Secondary segmentation is based on geographical regions.

For purposes of product segmentation, the BOSS Man, HUGO and BALDESSARINI brands are consolidated 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, the regions are defined as Germany, Other European Countries, the Americas and Other Regions.

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

(32) Related Party Disclosures

As part of its ordinary activities, the HUGO BOSS Group also obtains goods and services from related parties. Market prices are paid for the relevant goods and services.

During fiscal 2004, related parties in the Marzotto Group provided supplies and services (in particular fabric supply) amounting to EUR 22,952 thousand (prior year: EUR 22,179 thousand).

Members of the Supervisory Board received licensing fees totaling EUR 927 thousand (prior year: EUR 1,041 thousand) and compensation for other services rendered (in particular consulting) totaling EUR 232 thousand (prior year: EUR 422 thousand).

(33) Supervisory Board and Managing Board

The members of the Supervisory Board and Managing Board are listed on page 10.

Remuneration for members of the Managing Board in fiscal 2004 totaled EUR 3,536 thousand (prior year: EUR 2,400 thousand). Of this amount EUR 1,818 thousand (prior year: EUR 1,408 thousand) reflect the fixed components and EUR 1,718 thousand (prior year: EUR 992 thousand) variable components.

Option rights granted to members of the HUGO BOSS AG Managing Board under the stock option plan, the “stock appreciation rights program”, evolved as follows:

	Tranche no.1	Tranche no.2	Tranche no.3	Tranche no.4	Total
Date of Issue	July 2001	March 2002	Feb. 2003	Feb. 2004	–
Number of option rights outstanding on December 31, 2004	96,000	112,500	180,000	180,000	568,500
Strike Price (EUR)	31.95	23.63	9.71	16.93	–
Value of option rights held by Managing Board					
December 31, 2003 (EUR thous.)	26	118	1,132	–	1,276
December 31, 2004 (EUR thous.)	5	216	2,345	1,244	3,810

The Supervisory Board received total remuneration of EUR 983 thousand for its services (prior year: EUR 989 thousand). This includes a variable component of EUR 595 thousand (prior year: EUR 553 thousand) granted according to the resolution passed in the Shareholders’ Meeting of May 18, 2004.

Pension obligations towards former members of the Managing Board increased by EUR 586 thousand to EUR 4,475 thousand.

The members of the Supervisory Board own a total of 0.16% of the shares issued by HUGO BOSS AG. The members of the Managing Board together own less than 0.01% of the company’s shares.

(34) Stock Appreciation Rights Program

During 2001, HUGO BOSS AG introduced 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 and specific 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. Participation rights solely confer a claim to monetary compensation, but not a claim to HUGO BOSS AG shares.

The stock appreciation rights program has a term of four years. After the initial holding period of two years, a two-year exercise period begins. In the event that growth in market capitalization of HUGO BOSS AG exceeds MDAX growth by five percentage points (exercise barrier) upon expiration of the holding period or during the exercise period, participation rights may be exercised.

The payoff corresponds to the difference between the strike price and the market capitalization, reflecting the average prices of the relevant HUGO BOSS AG share during the five trading days preceding the date of exercise. The strike price corresponds to the market capitalization, 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 performed as follows during the years 2004 and 2003:

	2003	2004
Number of option rights at Jan. 1	454,250	908,150
Newly granted	462,300	513,800
Expired option rights	(8,400)	(48,900)
Number of option rights at Dec. 31	908,150	1,373,050

Provisions are created to cover anticipated future claims from the stock appreciation rights program. 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 2004, this increased provisions by EUR 5,525 thousand (prior year: EUR 1,140 thousand).

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]

Dr. Giuseppe Vita	Allianz Lebensversicherungs AG	Stuttgart, Germany
	Riunione Adriatica di Sicurtà (RAS) S.p.A.[2]	Milan, Italy
	Axel Springer AG[2]	Berlin, Germany
	Schering AG[2]	Berlin, Germany
	Techosp S.p.A.	Milan, Italy
	Vattenfall Europe AG	Berlin, Germany
	Marzotto S.p.A.	Valdagno, Italy
	Medical Park AG	Bad Wiessee, Germany
Antonio Favrin	Valentino S.p.A.[2]	Milan, Italy
	Marzotto GmbH	Frankfurt/Main, Germany
	Vincenzo Zucchi S.p.A.	Milan, Italy
	Mascioni S.p.A.	Milan, Italy
	Industrie Zignago Santa Margherita S.p.A.[2]	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	A.I.F. – Attività Industriali Friuli S.r.l.[2]	San Vito al Tagliamento, Italy
	Vetri Speciali S.p.A.[3]	Trento, Italy
	Santa Margherita S.p.A.	Fossalta di Portogruaro, Italy
	Ca'del Bosco S.p.A.	Erbusco, Italy
	Prind S.p.A.[2]	Fossalta di Portogruaro, Italy (until 04/21/04)
	Finanziaria Canova S.p.A.	Milan, Italy
	Linificio e Canapificio Nazionale S.p.A.[3]	Fara Gera d'Adda, Italy
	Vetrerie Venete S.p.A.[2]	Verona, Italy (since 10/20/04)
	Nord Vetri S.p.A.	Pergine Valsugana, Italy (since 10/20/04)
Jean F. de Jaegher	Bremer Woll-Kämmerei AG[3]	Bremen, Germany
Dr. Pietro Marzotto	FIN.I.INVEST S.p.A.[2]	Concordia Sagittaria, Italy (until 06/30/04)
	Industrie Zignago Santa Margherita S.p.A.	Fossalta di Portogruaro, Italy
	Vincenzo Zucchi S.p.A.	Milan, Italy (until 06/14/04)
	Mascioni S.p.A.	Milan, Italy (until 06/14/04)
	Intrapresa S.r.l.[2]	Concordia Sagittaria, Italy
	Valle Zignago S.p.A.[2]	Concordia Sagittaria, Italy
	Artemide S.p.A.	Pregnana Milanese, Italy (since 06/17/04)

Michele Norsa	Marzotto Distribuzione S.p.A.[2]	Valdagno, Italy
	Valentino S.p.A.	Milan, Italy
	Marzotto France S.a.s.[2]	Paris, France
	Marzotto (USA) Corp.[2]	New York, NY, USA
	Italfashion S.A.[2]	Mendrisio, Switzerland
	Italfashion U.K. Ltd.	London, United Kingdom
	Marzotto Madrid S.L.[2]	Madrid, Spain
	Italfashion GmbH	Munich, Germany
	Marzotto Trading Hong Kong Ltd.	Hong Kong, China
	Givo Limited	Gurgaon, India
	Valentino Couture S.a.s.[2]	Paris, France
	Valentino U.S.A. Inc.[2]	Wilmington, DE, USA
	Valentino Spagna S.L.[2]	Madrid, Spain
	VB Fashion PTE Ltd.	Singapore, Singapore
	V.S. Limited	Hong Kong, China
	Valentino Boutique Japan Ltd.	Tokyo, Japan
Dario Federico Segre	Marzotto S.p.A.	Valdagno, Italy
	Industrie Zignago Santa Margherita S.p.A.	Fossalta di Portogruaro, Italy
	Prind S.p.A.	Fossalta di Portogruaro, Italy (until 04/21/04)
	Bancaperta S.p.A.	Sondrio, Italy
	Filos Partecipazioni Finanziarie S.r.l.[2]	Milan, Italy
	Innovest S.p.A.	Milan, Italy
	Istifid S.p.A.	Milan, Italy
	Eidos Partners S.r.l.	Milan, Italy
	Aree Urbane S.r.l.	Milan, Italy
	Aperta Sgr	Milan, Italy (since 11/26/04)
	Valdani Vicari e Associati S.r.l.	Milan, Italy (since 7/13/04)

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

Dr. Bruno Sälzer	Beiersdorf AG	Hamburg, Germany

[1] The members not mentioned are not executive or advisory bodies at any other companies.
[2] Holding the post of Chair.
[3] Holding the post of Deputy Chair.

Metzingen, March 02, 2005

HUGO BOSS Aktiengesellschaft
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 of the separate financial statements of HUGO BOSS AG in this report for the sake of clarity of presentation, as these 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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Metzingen, March 2, 2005

HUGO BOSS Aktiengesellschaft
The Managing Board

Dr. Bruno Sälzer
Dr. Werner Lackas
André Maeder
Jörg-Viggo Müller
Lothar Reiff

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

Financial Calendar

March 30, 2005	Annual Press and Analyst Conference
April 28, 2005	Report on the First Quarter 2005
May 11, 2005	Annual Shareholders' Meeting in Stuttgart
July 28, 2005	Report on the First Half 2005
Nov. 3, 2005	Report on the First Nine Months 2005

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