HUGO BOSS

Annual Report 1999

HUGO BOSS at a Glance[1]

DEM mill.	1999	1998	1997	1996	1995
Development of Sales					
Sales	1,472.5	1,337.0	1,136.3	995.3	900.9
Export share in %[2]	63.6	61.7	63.5	64.0	62.1
Earnings Position					
Consolidated net income	110.5	97.3	82.3	76.1	58.0
adjusted[3]				64.9	
Return on sales after taxes in %	7.5	7.3	7.2	7.6	6.4
adjusted[3]				6.5	
Personnel expenses	196.6	179.3	157.2	149.3	139.4
Employees[4]	2,581	2,195	2,055	2,147	2,104
Return on equity[5] in %	27.6	28.8	27.4	29.0	26.3
adjusted[3]				25.3	
Financial Status and Dividend					
Cash flow	142.8	124.8	112.7	97.0	71.5
adjusted[3]				85.8	
Free cash flow before dividend	65.6	(5.0)	36.8	44.1	90.9
Liquid assets	106.5	92.2	113.7	126.9	89.6
Additions to fixed assets	91.7	58.2	85.8	34.7	22.7
Depreciation[6]	37.9	26.0	23.5	17.5	12.8
Dividend	55.5	48.5	40.8	29.3	26.7
Special dividend				36.5	
Asset and Liability Structure					
Balance sheet total	722.6	652.2	581.2	486.3	422.3
Shareholders´ equity[7]	436.2	363.2	313.2	287.0	237.9
Equity ratio in %	60.4	55.7	53.9	59.0	56.3
Fixed assets	196.7	159.1	133.0	74.0	64.3
Current assets	509.3	486.7	441.0	405.6	353.6
Shares (EUR[8])					
Dividend per share					
Common stock	4.00	3.49	2.93	2.09	1.91
Preferred stock	4.07	3.56	3.00	2.16	1.98
Special dividend per share					
Common stock				2.65	
Preferred stock				2.65	
Earnings per share DVFA/SG[9]	8.51	7.14	6.55	4.97	4.51
Cash flow per share	10.37	9.07	8.18	7.07	5.21
adjusted[3]				6.23	
Common stock					
highest price	127.04	184.53	111.55	91.80	60.19
lowest price	92.63	102.26	81.34	55.78	46.02
Preferred stock					
highest price	143.01	199.87	119.46	92.96	57.17
lowest price	95.34	109.70	83.67	55.87	42.86

[1] Ten-year survey of important Group figures.
[2] Export share incl. foreign royalties income.
[3] Figures adjusted for the tax effect of the special dividend.
[4] Average for the year.
[5] Consolidated net income in relation to the average shareholders' equity.
[6] Including write-offs of financial assets.

1994	1993	1992	1991	1990
857.0	846.3	950.1	997.0	921.5
61.1	58.4	61.7	61.5	62.9
52.4	76.5	44.2	35.4	28.0
	48.6			
6.1	9.0	4.7	3.6	3.0
	5.7			
146.0	141.9	170.4	178.3	165.1
2,027	2,132	3,072	4,011	4,114
23.3	35.8	26.8	25.8	23.3
	24.3			
75.0	104.0	59.3	50.8	47.8
	76.1			
36.5	119.1	85.4	2.6	16.8
48.3	99.1	37.2	72.8	58.8
15.8	13.5	22.4	21.4	20.9
13.2	17.0	15.8	14.0	18.3
22.2	15.2	13.9	13.3	13.3
	75.2			
369.7	396.2	367.5	443.4	407.3
203.7	245.6	181.7	147.8	126.4
55.1	62.0	49.4	33.3	31.0
65.6	66.4	71.7	75.1	69.2
295.4	321.5	291.1	361.6	333.4
1.58	1.07	0.98	0.93	0.93
1.65	1.14	1.05	1.00	1.00
	5.46			
	5.46			
4.00	3.30	2.88	2.74	2.37
5.44	7.58	4.32	3.67	3.49
	5.53			
55.22	46.48	35.05	43.23	65.07
40.90	21.66	22.08	32.54	35.79
50.20	43.69	28.35	35.33	54.38
34.86	18.13	18.82	24.87	28.59

[7] Incl. 50% of special untaxed reserves.
[8] Exchange rate: 1 EUR = 1.95583 DEM.
[9] Deutsche Vereinigung für Finanzanalyse und Anlageberatung/Schmalenbachgesellschaft; Joint Recommendation 1999 (3rd Edition) used for 1998 and 1999.

W o m a n . Woman fascinates. Much has been said and written about her role: in antiquity, through the ages, in today's society. Tales have been told of young and beautiful women, of heroines tragic and triumphant. Woman is a paragon. A beacon of hope in the darkest hour. A shining star on bright horizons.

The movie industry seizes upon these images. With unparalleled power it projects women of all the ages onto its silver screens worldwide. Movie stars embody these figures – and are idealized in turn. Audrey Hepburn and Sharon Stone have impacted entire generations. Self-assurance, intelligence and style lend them a magic unique in our technocratic times.

We are fascinated by this magic. We want to capture it, translate it, reproduce it. In BOSS Woman.

Self-confident and sexy, BOSS Woman has strength and vibrancy. BOSS Woman is a blend of Audrey Hepburn, Sharon Stone - and the magic that is every woman.

BOSS Woman will be at home in the mecca of women's fashion. In Milan, where we have purchased premises and founded a company.

A woman is designing the new line for BOSS: Grit Seymour. Together with her international creative team. The collection is due this summer. This marks the first time we are creating fashions for women under our core brand BOSS. A big step for HUGO BOSS. A giant leap into the future.

The future flows from the wellspring of the present. BOSS Woman is emerging from a flourishing company. On behalf of the Management Board I would therefore like to thank the entire staff at HUGO BOSS for the successes of 1999. Just as we look back with pleasure, so we look ahead with confidence. To a future with strong HUGO BOSS brands – for men and women.

Tomorrow is waiting.

Werner Baldessarini

Supervisory Board

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Lawyer
Kronberg/Taunus
– Chairman –

Dr. Sergio Erede
Lawyer
Milan (Italy)

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Metzingen
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Management Board

Werner Baldessarini
Riederich
Responsible for the Design and Marketing Divisions
Member of the Board since November 25, 1987
Chairman & CEO since November 1, 1998

Dr. Bruno E. Sälzer
Reutlingen
Responsible for the Sales and Trade Marketing Divisions
Member of the Board since November 1, 1995
Deputy Chairman

Dr. Werner Lackas
Eningen unter Achalm
Responsible for the Production and Logistics Divisions
Member of the Board since October 1, 1997

Jörg-Viggo Müller
Reutlingen
Responsible for the Finance, Personnel, IT and General Administration Divisions
Member of the Board since April 1, 1993

Massimo Suppancig
Milan (Italy)
Responsible for the Women's Collection Division
Member of the Board since August 1, 1998


Werner Baldessarini


Dr. Bruno E. Sälzer


Dr. Werner Lackas


Jörg-Viggo Müller


Massimo Suppancig

The HUGO BOSS Group

HUGO BOSS is fashion. HUGO BOSS is lifestyle. HUGO BOSS is success. Three brands make HUGO BOSS one of the world's leading fashion groups: BOSS, HUGO and BALDESSARINI.

BOSS

BOSS is successful. International. Dynamic. Modern. BOSS is cosmopolitan. A lifestyle merging business and sports. For men and, starting this year, for women worldwide.

HUGO

HUGO is trend. HUGO is young. An unconventional lifestyle for the upbeat scene. HUGO Man and Woman – different and avant-garde.

BALDESSARINI

Sophisticated luxury. Elegant exclusivity. BALDESSARINI reflects the life and style of St. Moritz, Portofino and Monaco. The finest quality for discerning dressers.

Strategy

Our brands form our Group, and our Group forms the umbrella for our brands. HUGO BOSS implements stringent design and quality standards to produce superior products that deliver value for money. And HUGO BOSS is growing on a global scale. With brands for men and women.

Fashion and Brand Image: The Collections

Fashion and brand image are synonymous at HUGO BOSS: our brand and fashion positionings are identical. All the brand collections adhere to a lifestyle philosophy: in addition to the core range of tailored clothing, sportswear and accessories, HUGO BOSS also offers non-textile products such as eyewear, fragrances, watches, shoes and leather goods. The ever-present brand signature is distinctive in each of the three collections.

Product Development and the Creative Process

An ability to pinpoint the zeitgeist and simultaneously translate trends into products represents the platform for any fashion company's success. Fashion is a cascading phenomenon. Trends are forged in the crucibles of the big cities, where they are seized and then roll outwards geographically like cascading currents. Our designers and creative teams travel the world, scouting in New York, London, Milan, Paris and Tokyo – on the lookout for inspiration and new ideas.

The fashion cycle calls for two collections per year: Spring/Summer and Fall/Winter. Our designers and creative staff define seasonal themes and then develop the collections accordingly. Their sketches are transformed into patterns using the latest CAD technology. Skilled model-making staff then use these patterns to tailor initial prototypes for the collection, which is refined in an ongoing, creative dialog. Color, fabric quality and wearability comprise the ingredients of a successful product. In its quest for innovative materials and colors, our creative team maintains constant contact with the world's leading fabric producers, several of whom develop new materials exclusively for HUGO BOSS.

Licenses

The lifestyle philosophy is reflected in HUGO BOSS' licensing partnerships. For products and accessories that lie outside its core clothing competence, HUGO BOSS grants licenses to selected partners. The product-oriented input from these partners, enhanced by creative impulses from HUGO BOSS, generates lifestyle products that provide the perfect complement for the complete HUGO BOSS look.

Production and Sourcing

The HUGO BOSS production and logistics concept synergizes the company's own competence with the expertise of highly qualified partners. The combination of in-house and external production enables HUGO BOSS both to offer a broad spectrum of products and to react flexibly to changing market conditions. Stringent quality control systems, traveling technicians and internationally binding production specifications ensure that HUGO BOSS' high quality standards are met everywhere, irrespective of the place of manufacture. The geographical origin is secondary; what matters isn't "Made in..." but "Made by HUGO BOSS."

Marketing Communications

Marketing communications comprise a central element of the HUGO BOSS strategy. Their goal is to charge the brands with emotional meaning, transforming them into sensual experiences.

Advertising

Advertising campaigns visualize our brands. For every one of the HUGO BOSS brands, a global advertising campaign is developed each season in cooperation with top photographers and renowned art directors. The campaign motifs are used in print and poster advertising. TV commercials promote the HUGO BOSS fragrances.

Sponsoring

Sponsoring emotionalizes our brands. Our Formula One activities have infused the BOSS brand with positive values such as dynamism and success, as have golf and tennis. Cultural sponsoring enriches the HUGO BOSS brands, adding the dimensions of aestheticism and the arts.

Events

Events sensualize our brands. Appealing to all the senses, they conceptualize the brand experience. Fashion shows and Shop openings are ideal vehicles for energizing target groups.

Public Relations

Public Relations communicate our brands. Product PR, film & VIP wardrobing, plus interviews with designers, bring the brands to life.

Trade Marketing

Trade Marketing dramatizes our brands. Visual merchandising, sales workshops and dealer events offer a palpable presentation of the brand lifestyles.

Distribution Concepts

The HUGO BOSS brands are present in 100 markets around the world. Our distribution policy focuses on long-term success rather than short-term gains. The international marketing activities are highly selective and oriented to the specific constellations in each country. HUGO BOSS subsidiaries operate in strategic core markets, while smaller markets are served by experienced trade representatives who have worked successfully with us for many years.

Retail Partners

The distribution activities and selection of our retail partners reflect the positioning of our brands. Our distribution strategy rests on two pillars: mono-brand stores – i.e. BOSS, HUGO or BALDESSARINI Shops – on the one hand, and fine retailers in a competitive brand environment on the other.

Our products are sold through loyal retailers who can look back on long partnerships with HUGO BOSS. Specialty retailers and high-quality chains number among HUGO BOSS customers.

The Shops, operated on a franchise basis, play a pivotal role in our brand presentation. With each one keyed to its own brand and sharing a consistent design worldwide, they offer the ideal showcase for the brand worlds of BOSS, HUGO and BALDESSARINI – and an incalculable benefit in marketing terms.

BOSS GOES WOMAN

Main entrance of the new BOSS Woman building in Milan.


BOSS

Massimo Suppancig, Management Board member responsible for BOSS Woman.


BOSS
HUGO BOS

Inner courtyard of the
new BOSS Woman
building in Milan.


BOS
HUGO B

Grit Seymour, head designer for the BOSS Woman collection.


BOSS

BOSS Woman collection designers.


BOSS
HUGO BOSS

Sales by Brands

	1999 DEM mill.	1998 DEM mill.	Change in %
BOSS[1]	1,366.8	1,243.5	10
HUGO	86.4	76.1	14
BALDESSARINI	19.3	17.4	11
Total	**1,472.5**	**1,337.0**	**10**

[1] Including sales of other brands totaling 9.4 million DEM (1998: 8.9 million DEM).

Sales by Regions

	1999 DEM mill.	1998 DEM mill.	Change in %
Germany	500.9	472.9	6
Rest of Europe	565.2	500.2	13
America	252.6	228.1	11
Other regions	91.4	78.7	16
Royalties	62.4	57.1	9
Total	**1,472.5**	**1,337.0**	**10**

Sales by Quarters

	1999 DEM mill.	1998 DEM mill.	Change in %
First Quarter	491.1	447.4	10
Second Quarter	224.8	199.8	13
Third Quarter	512.2	480.0	7
Fourth Quarter	244.4	209.8	16
Total	**1,472.5**	**1,337.0**	**10**

BOSS Shops by Regions

	1999		1998	
	absolute	in %	absolute	in %
Germany	27	10	21	8
Western Europe	83	29	54	21
Eastern Europe	23	8	21	8
Asia	92	32	91	36
North America	33	11	22	9
Other regions	29	10	45	18
Total	**287**	**100**	**254**	**100**

1999 in Figures

Sales

Double-Digit Sales Growth

HUGO BOSS was able to further boost its strong market position in 1999. The Group increased its sales in the year under review by 136 million DEM or 10 % to 1.473 billion DEM. This increase was largely organic, with only a small proportion (9 million DEM) due to exchange rate effects. Growth was powered primarily by the systematic and strategic expansion of our distribution activities. Additional BOSS Shop sales were generated by the opening of 33 new Shops, putting the grand total at 287 (1998: 254).

The favorable rise in turnover was driven by the success of all the HUGO BOSS brands. Our core brand BOSS displayed 10 % growth, with the trend brand HUGO up 14 % and our luxury brand BALDESSARINI showing +11 %.

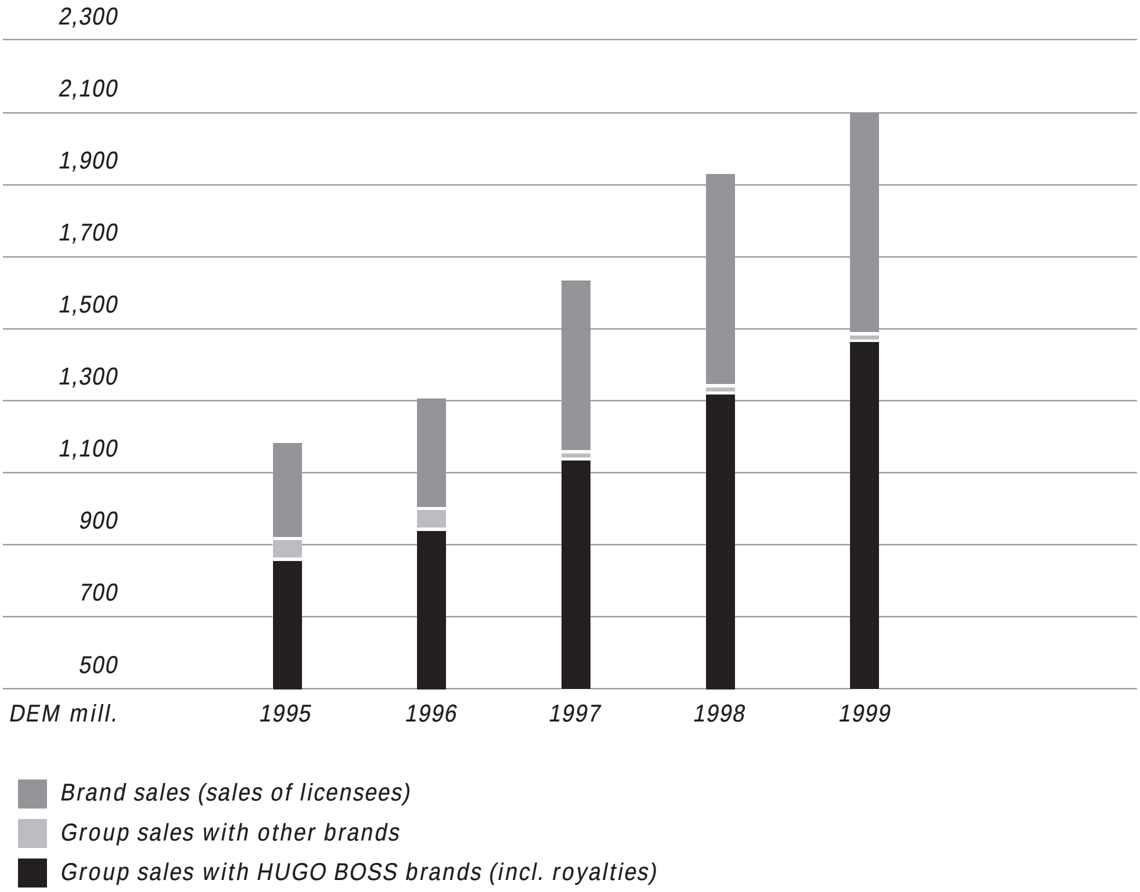
Difficult Economic Environment

The double-digit sales growth achieved by HUGO BOSS is all the more significant in light of the generally poor economic climate during the year under review. The situation in Western Europe showed only minor improvements. Whereas the Gross National Product did rise again slightly in most countries, consumer spending stagnated at low levels. The retail clothing trade in Germany – our largest market – remained unsatisfactory. Following six years of decline, the year closed at zero growth, although forecasts had initially indicated a recovering market in 1999.

Two regions that had been problematic in past years did, however, show signs of recovery. The economic crisis affecting most of Southeast Asia appears to have passed. Renewed optimism catalyzed private consumer spending there, producing solid double-digit sales growth during the second half of 1999. The situation in the wake of the financial crisis in Latin America has also begun to normalize, offering potential for renewed economic growth in the year 2000.

The constellations in Eastern Europe and Japan continued to be unfavorable. The United States once again proved the single positive exception in an otherwise lukewarm world economy. Notwithstanding a rise in interest rates, the economic boom maintained its momentum in the U.S.

Development of Group and Brand Sales



Growth in Germany Up 6 %

During the year under review we succeeded in upping sales in Germany by 6 % to 501 million DEM. Our sportswear segment, where HUGO BOSS showed a strong plus of 15 %, was instrumental in this success. Additional growth was also achieved through new BOSS Shops opened in cooperation with our retail partners.

Sales Rest of Europe

	1999	1998	Change in %	
	DEM mill.	DEM mill.	DEM	local currency
France	124.9	113.3	10	10
Great Britain	84.9	71.5	19	17
Netherlands	57.5	39.8	44	44
Italy	51.5	42.1	22	22
Switzerland	37.5	31.7	18	18
Spain	24.2	18.9	28	29
Other Europe	184.7	182.9	1	1
Rest of Europe	**565.2**	**500.2**	**13**	**13**
in % of total sales	39	37	2	

13% Turnover Gains in Europe

By systematic penetration of the market, we were able to attain equally good results in the rest of Europe. Turnover in the region grew by 65 million DEM or 13 % to a total of 565 million DEM, with last year's sales being exceeded in nearly every market. In France and Great Britain we once again managed strong gains, boosting sales by 10 % and 19 % respectively. Solid double-digit growth was also reported in Italy (+22 %) and Switzerland (+18 %). Still higher sales increases were recorded in the Netherlands (+44 %) and Spain (+28 %). With growth of 11 % and 13 % respectively, Scandinavia and Belgium also exhibited favorable results.
The picture in the other European countries was clouded by the adverse developments in Eastern Europe. The overall economic deterioration there led to a 23 % decline in sales during 1999. However, incoming order volumes for the second half of 2000 indicate that sales will at least remain stable.

Sales America

	1999	1998	Change in %	
	DEM mill.	DEM mill.	DEM	local currency
USA	167.9	139.1	21	16
Canada	51.4	48.9	5	1
Brazil	16.1	18.9	(15)	30
Other America	17.2	21.2	(19)	(19)
Total America	**252.6**	**228.1**	**11**	**11**
in % of total sales	17	17	0	

Americas with Sales Plus of 11%

Developments in the Americas proved extremely positive for 1999. Sales rose 11 %, putting the total for the region at 253 million DEM (1998: 228 million DEM). The United States acted as the primary growth engine; there we achieved a plus of 21 % on a DEM basis, equating to a currency-adjusted increase of 16 %. Along-side the favorable economic climate in the U.S. market, the streamlining of our distribution operations helped pave the way for further growth. The expansion of the BOSS Shop network was another major ingredient in this success.

Brazil also reported positive trends. Sales were up by 30 % in terms of the local currency; however, this increase was eclipsed by a 45 % devaluation of the Brazilian Real. Performance was generally disappointing across the board in the other Latin American countries; sales were down by 4 million DEM or 19 % compared to the previous year. This outcome was chiefly attributable to the currency shortage in Mexico, and compounded by the general mood of uncertainty among consumers who strongly curtailed their private spending in the wake of the financial crisis.

Sales Other Regions

	1999	1998	Change in %	
	DEM mill.	DEM mill.	DEM	local currency
Japan	38.9	34.7	12	(7)
Other countries	52.5	44.0	19	19
Other regions	**91.4**	**78.7**	**16**	**8**
in % of total sales	6	6	0	

Southeast Asia Strong in Second Half of 1999

The 12 % additional turnover in Japan was only positive at first glance. Currency-adjusted to accommodate the rising Japanese yen, our sales fell 7 % as a consequence of the general economic crisis which has paralyzed consumer spending for the past two years. Business was better for us in the majority of markets in Southeast Asia, where the crisis peaked around mid-1999. After stagnating sales in the first six months, the economic upswing enabled us to finish the year in the region on a strong note. Significant gains were scored above all in Hong Kong (+86 %), South Korea (+83 %) and Taiwan (+25 %).

In Africa, 1999 brought total sales of 7 million DEM (1998: 6 million DEM). The opening of BOSS Shops provided a mainspring for growth in the region. In Australia we were able to maintain the previous years' momentum with a 29 % leap in sales, bringing the new total up to 6 million DEM.

Royalties

	1999	1998	Change
	DEM mill.	DEM mill.	in %
Royalties textile	19.3	16.8	15
Royalties non-textile	43.1	40.3	7
Royalties	**62.4**	**57.1**	**9**
in % of total sales	4	4	0

Brand Sales Surpass 2 Billion DEM for First Time

At +9 %, licensing income at HUGO BOSS also exhibited strong growth. Disproportionately high gains were achieved in the successful product groups bodywear, eyewear and shoes. Turnover increased for the other licensing products as well, with the only exception being the fragrance sector, where royalties remained largely consistent with the high levels of previous years.

Brand sales of all products marketed under the HUGO BOSS name surpassed the two-billion-DEM threshold for the first time in 1999. At 2,096 billion DEM, they represented a 9 % increase from 1998 (1,927 billion DEM).

All HUGO BOSS Brands Record Double-Digit Growth

All the HUGO BOSS brands contributed to the Group's rising turnover. BOSS, the key brand, continued to perform at a high level; we were able to boost sales by 10 % to 1.367 billion DEM during the year under review. With its impressive 20 % sales plus, the sportswear segment was a major force behind this growth. The BOSS Golf collection also did well, producing dynamic growth of 33 % to reach 29 million DEM.

In 1999 we improved turnover of our trend brand HUGO by 14 %, pushing sales up to 86 million DEM (1998: 76 million DEM). The HUGO men's collection achieved an additional 5 %, up to near 50 million DEM. Sales of the HUGO women's line – which began only in the second half of 1998 – grew from 7 million DEM to 15 million DEM in 1999. Licensing income from HUGO products went up 3 % in 1999, generating a total of 22 million DEM.

Following the previous year's restructuring measures in our distribution operations, we were able to extend the market share of our luxury brand BALDESSARINI. In this very narrow and exclusive market segment, the 11 % plus to 19 million DEM constitutes a highly satisfactory result. The most pronounced growth in BALDESSARINI collection sales was registered in France, the Netherlands and Switzerland.

Ratios

	1999 DEM mill.	1998 DEM mill.	Change in %
Sales	**1,472.5**	**1,337.0**	**10**
Changes in inventories	(13.4)	18.0	(174)
Capitalized pre-operating expenses	7.8	–.–	
Other income	72.3	60.9	19
Total value of sales and other income	**1,539.2**	**1,415.9**	**9**
Cost of materials and other expenses	(1,094.4)	(1,020.8)	(7)
Depreciation[1]	(37.9)	(26.0)	(46)
Net value added	**406.9**	**369.1**	**10**
Result before taxes	206.3	185.2	11
Result after taxes	110.5	97.3	14
Result according to DVFA/SG[2]	117.2	98.3	19
Return on Sales	7.5 %	7.3 %	
Return on Equity	27.6 %	28.8 %	
Return on Investment	55.5 %	60.4 %	

[1] Including write-downs of other financial investments amounting to 3.9 million DEM.
[2] Both years' figures calculated on the basis of the 1999 Joint DVFA/SG Recommendation (3rd Edition).

DVFA/SG Result[1]

	1999	1998	
	New Standard	New Standard	Old Standard
	DEM mill.	DEM mill.	DEM mill.
Consolidated net income	110.5	97.3	97.3
Change	14%		
Adjustments in current assets	5.1	5.0	5.0
Elimination of capitalized pre-operating expenses	(4.1)	–.–	–.–
Adjustments for accruals without obligations towards third parties	(1.7)	(0.6)	–.–
Adjustments for non-recurring and out of period items	–.–	–.–	4.4
Deferred taxes on provisions and losses	7.4	(3.4)	–.–
Result according to DVFA/SG	**117.2**	**98.3**	**106.7**
Change – new standard	19%		
Change – old standard	10%		
Number of shares	7,040,000	7,040,000	7,040,000
Earnings per share according to DVFA/SG (EUR)	**8.51**	**7.14**	**7.75**

[1] New standard: Joint DVFA/SG Recommendation 1999 (3rd Edition).
Old standard: Joint DVFA/SG Recommendation 1995 (2nd Edition).

Earnings Position

Record Results: 111 Million DEM

A 14 % gain to a new high of 111 million DEM (1998: 97 million DEM) constitutes yet another consecutive net income record for the year, and marks the first time HUGO BOSS has broken through the 100 million DEM barrier. Adjusted to accommodate the special impact of the project in Turkey, profits for the period are up an impressive 18 % and hence exhibit a much higher growth rate than sales.

With its gain of 68 million DEM, the gross margin improved to 734 million DEM, a rise proportionate to turnover. Given the moderate rise in operating expenses, operating income was up to 215 million DEM, a 14 % increase that clearly outstripped turnover. As a result of the corporate tax rate reduction in Germany, the average tax load ratio for the result before taxes dropped from 47 % to 46 %. The return on sales rose from 7.3 % to 7.5 %.

Development of Result

	DEM mill.	
Consolidated net income 1998	***97.3***	
Improvement in gross margin	*68.4*	
Increase in royalties		*5.3*
Effect of sales volume on gross margin		*63.1*
Increase in operating expenses	*(17.2)*	
Increase in personnel expenses	*(16.5)*	
Increased depreciation	*(8.0)*	
Change in financial result	*0.3*	
Deviation other items [1]	*(6.1)*	
Deviation taxes	*(7.7)*	
Consolidated net income 1999	***110.5***	

[1] Non-recurring and extraordinary items; minority share of result.

Gross Margin Up with Sales

In 1999 the gross margin rose 10 % on a par with sales, from 665 to 734 million DEM. At 50 %, the gross margin was exactly the same as the previous year's figure; there were no changes in sales prices or in sourcing costs. Furthermore, special influences were essentially equal for 1998 and 1999. In both years positive exchange-rate effects cancelled out inventory valuation adjustments necessitated by the non-delivery of goods to relatively unstable regions.

Moderate Rise in Operating Expenses

Operating expenditures in 1999 rose 6 % or 17 million DEM, climbing from 276 million DEM to over 293 million DEM. The additional costs were predominantly attributable to a 10 million DEM increase in the marketing budget. We also had higher outlays for showroom rent at our new subsidiaries, as we did for samples produced for our expanded collections. In the new Turkish facility, operating expenses totaled 3 million DEM.

Costs for developing showrooms and expanding our warehouses were generally down. The write-downs on accounts receivable fell to the level of previous years, which also had a favorable impact.

Statement of Income

	1999	1998	Change
	DEM mill.	DEM mill.	in %
Sales	**1,472.5**	**1,337.0**	**10**
Cost of materials incl. changes in inventories	(738.9)	(671.8)	(10)
Gross margin	**733.6**	**665.2**	**10**
in % of sales	49.8 %	49.8 %	0
Other operating income and expenses [1]	(293.4)	(276.2)	(6)
Personnel expenses [1]	(191.5)	(175.0)	(9)
Depreciation [1]	(34.0)	(26.0)	(31)
Operating income	**214.7**	**188.0**	**14**
Net financial result	4.0	3.7	8
Non-recurring and extraordinary items	(12.4)	(6.5)	(90)
Earnings before taxes	**206.3**	**185.2**	**11**
Taxes on income and other taxes [1]	(95.7)	(88.0)	(9)
Minority share of result	(0.1)	0.1	–
Consolidated net income	**110.5**	**97.3**	**14**

[1] Exclusive of non-recurring and extraordinary items and pre-operating expenses.

Marketing Spending Up with Turnover

In 1999 we increased marketing spending by 11 % from 95 to 105 million DEM. One underlying aim was to further promote our successful sportswear collection by equipping it with a higher advertising budget. The other objective was to boost the development of our trade marketing and franchising activities; in this context we devoted funds to the opening of new BOSS Shops, promotional materials and the extension of our dealer training programs. Marketing spending compared to sales remained level at 7 %.

Higher Depreciation

The investments made within the scope of major sales, production and logistics projects during previous years contributed to the considerably augmented depreciation of fixed assets in 1999. Write-offs of more than 1 million DEM for our production plant in Turkey also contributed to the increase. All told, depreciations rose by 8 million to 34 million DEM.

Personnel Costs Up 9 %

Adjusted for non-recurring and extraordinary items, personnel costs rose to 192 million DEM in 1999, up by 17 million DEM or 9 %. The sum of nearly 4 million DEM alone, i.e. 2 %, was incurred as a result of operations commencing in our new production plant in Turkey. The remaining 7 % (13 million DEM) are traceable to additional sales personnel and new logistics staff hired to handle the growing volumes.

Operating Income: +14%

The stable gross margin and disproportionately low rise in operating and personnel expenses caused operating income to rise faster than sales. It increased in 1999 by 14 %, from 188 to 215 million DEM. Omitting the costs of our newly established subsidiary in Turkey from the equation, operating income would have grown by 18 %. As in the previous year, the 1999 net financial result of 4 million DEM was positive and clearly illustrates HUGO BOSS' consistently solid liquidity.

Non-recurring and extraordinary expenses rose by nearly 6 million DEM to a total of 12 million DEM in 1999. As in the year before, these expenses were incurred for trademark protection and the termination of employment contracts. Further costs fell due in the form of accruals for settlement payments to agents and payments in conjunction with the cancellation of service contracts; additional costs were incurred by write-downs of financial assests.

Lower Tax Load Ratio

At 12 million DEM, the non-recurring and extraordinary items were higher than in 1998 (7 million DEM). The pre-tax result nonetheless rose by 11 % to a total of 206 million DEM, outpacing the rise in sales.

At 96 million DEM (1998: 88 million DEM), taxes were 9 % higher than the previous year. However, the ratio fell, largely as a consequence of the reduction in the German corporate tax rate for retained earnings from 47 % to 46 %. In contrast, while the increase in accruals did serve to lessen the profit as defined by the Commercial Code, it did not have the same impact on the tax burden.

Costs for BOSS Women's Collection Capitalized

To improve the comparability of earnings within the given time frame, the management has decided to capitalize the pre-operating expenses for the women's collection; these are shown in the 1999 balance sheet at 8 million DEM before taxes. As a consequence, the project has no affect on the consolidated result.

DVFA/SG Earnings Show Marked Improvement

Based on the new standard for determining the DVFA/SG earnings ("German Association of Financial Analysts and Investment Consultants/Schmalenbachgesellschaft"), HUGO BOSS earned 117 million DEM in 1999 as compared to 98 million DEM the previous year (+19 million DEM).

One pivotal reason behind this change was the 13 million DEM increase in net income. The remaining increase was ascribable to deferred taxes. Based on the latest DVFA determination methods, these deferrals must be shown in conjunction with reserves that had no tax-reducing influence in the reporting period. Not shown – and hence adjusted – were reserves for deferred repairs and maintenance that were set up during the year under review. The capitalized pre-operating expenditures were shown in the DVFA earnings as costs, here again taking into account deferred taxes, and therefore adjusted for these.

Based on the former determination of the DVFA/SG earnings, i.e. without showing deferred taxes as assets and adjusted for out-of-period expenses (particularly in connection with tax audits), HUGO BOSS earnings in 1998 were 107 million DEM, i.e. 10 million DEM less than in the year under review.

Ratios

		1999 DEM mill.	1998 DEM mill.	Change in %
Balance sheet total		722.6	652.2	11
Shareholders' equity		436.2	363.2	20
Fixed assets		196.7	159.1	24
Current assets		509.3	486.7	5
Additions to fixed assets		91.7	58.2	58
Depreciation[1]		37.9	26.0	46
Equity ratio	in %	60.4	55.7	5
Current ratio	in %	228.5	223.9	5
Cash flow to liabilities	in %	114.0	79.4	35

[1] Including write-offs of other investments.

Free Cash Flow

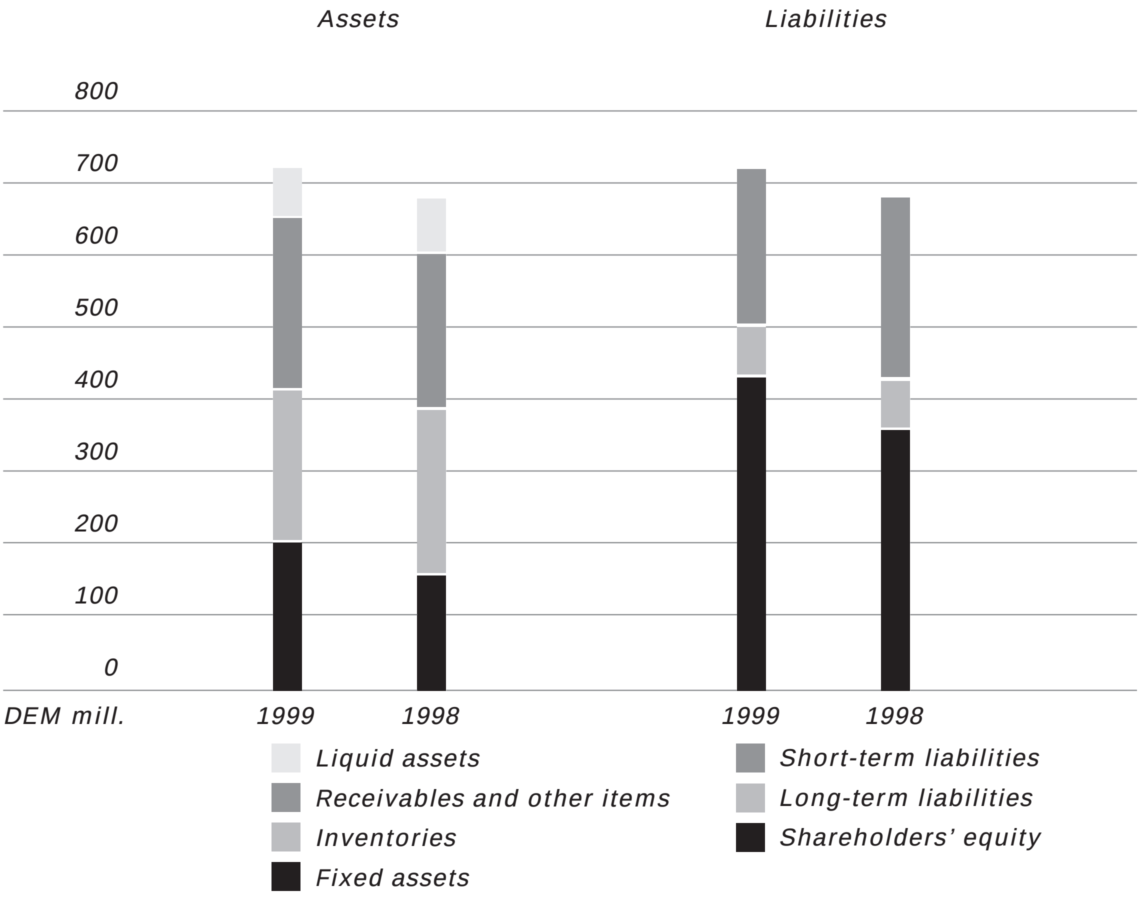
	1999 DEM mill.	1998 DEM mill.	Change DEM mill.
Consolidated net income	110.5	97.3	13.2
Depreciation[1]	37.9	26.0	11.9
Change of pension accruals	2.2	1.5	0.7
Capitalization of pre-operating expenses	(7.8)	–.–	(7.8)
Cash flow	**142.8**	**124.8**	**18.0**
Net additions to fixed assets	(75.5)	(52.1)	(23.4)
Changes in remaining net capital invested	(12.7)	(71.1)	58.4
Currency exchange and other equity changes	11.0	(6.6)	17.6
Free cash flow – before dividend –	**65.6**	**(5.0)**	**70.6**
Dividend payment	(48.5)	(40.8)	(7.7)
Free cash flow	**17.1**	**(45.8)**	**62.9**

[1] Including write-offs of other investments.

Financial Position

Solid Balance Sheet Figures

The HUGO BOSS balance sheet was once again extremely solid at year's end. The good result led to a 20 % increase in shareholders' equity which rose from 363 to 436 million DEM. In contrast, the balance sheet total was up only 11 % to 723 million DEM, improving the equity ratio from 56 % to 60 %. At the date of the balance sheet, the shareholders' equity covered all the fixed assets and more than 47 % of the current assets (1998: 42 %).



Current Assets Growing Slower than Sales

Current assets were up 5 %, from 487 to 509 million DEM, a growth rate somewhat less strong than sales. We had substantially higher receivables at the date of the balance sheet (225 compared to 195 million DEM in 1998). This was because, compared to the previous year, we had delivered more products from the Spring/Summer collection at year's end. These higher volumes were due to the increased demand, primarily in Southeast Asia and the United States. Adjusted for this seasonal shift, the receivables kept pace with sales growth and were of higher quality. The early deliveries were also responsible for the lower inventories in 1999 – 209 million DEM – compared to 217 million DEM in 1998. Furthermore, our intensified efforts in the area of inventory management produced a reduction in the stock on hand.

Sharp Rise in Fixed Assets

Investments of 92 million DEM led to a rise in gross fixed assets during 1999. Within the scope of setting up the BOSS women's collection, we acquired an imposing property in Milan for 13 million DEM where the eagerly awaited collection is currently being developed. Together with investments in office equipment (5 million DEM) and the pre-operating expenses (8 million DEM) resulting from our set-up activities, a sum of 26 million DEM is shown in the 1999 balance sheet in conjunction with this project.

We invested 20 million DEM in the Group's own production plant in Turkey. In the course of restructuring a license agreement, we acquired trademark rights at a value of 18 million DEM; these are listed under intangible assets and will be written off for a useful life of ten years. At the same time, a long-term, 22 million DEM loan granted to a licensee was redeemed.

Alongside project-related additions to the assets, substantial funds were devoted to the IT sector, inventory management and showroom modernization. We also invested some 4 million DEM in our new BOSS Flagship Store in Milan.

Given the high level of gross investments, net fixed assets rose by 24 % to 197 million DEM (1998: 159 million DEM).

Analysis of Financial Requirements

	1999 DEM mill.	1998 DEM mill.	Change DEM mill.
Accounts receivable, other assets, balances with factoring companies[1]	224.9	194.7	30.2
Inventories	209.2	217.0	(7.8)
Balance of prepaid expenses and deferred income	8.9	6.3	2.6
Trade payables and other liabilities[1]	(76.6)	(87.6)	11.0
Tax and other accruals	(116.7)	(89.4)	(27.3)
Net current assets	**249.7**	**241.0**	**8.7**
Accounts receivable[2]	12.6	5.3	7.3
Trade payables and other liabilities[2]	(7.4)	(4.1)	(3.3)
Fixed assets	196.7	159.1	37.6
Capitalized pre-operating expenses	7.8	–.–	7.8
Pension accruals	(44.5)	(42.3)	(2.2)
Medium- and long-term net assets	**165.2**	**118.0**	**47.2**
Net capital invested	**414.9**	**359.0**	**55.9**
Balance of cash at banks and due to banks	(21.3)	(4.2)	(17.1)
Shareholders' equity	436.2	363.2	73.0
Coverage of net capital invested	**414.9**	**359.0**	**55.9**

[1] Payable within one year.
[2] Payable after more than one year.

Net Capital Up 56 Million DEM

The net current assets rose by 9 million DEM or 4 % to 250 million DEM during 1999. Major contributors to this increase were receivables (up by 30 million DEM) and trade payables (down by 11 million DEM). Factors lowering the net financial requirement included higher accruals (up 27 million DEM) and lower inventories (down 8 million DEM).

The substantial investments in fixed assets and the capitalized pre-operating expenses comprised the main reasons for the 47 million DEM increase in the medium- and long-term net assets to 165 million DEM.

In total, the net capital invested to be covered at year's end was 415 million DEM, 56 million DEM higher than in 1998 (359 million DEM). This contrasted with a 73 million DEM increase in shareholders' equity (to 436 million DEM), giving us a positive balance of cash at banks and due to banks of over 21 million DEM (1998: 4 million DEM) at the close of the year under review.

Positive Free Cash Flow Despite Higher Investments and Dividends

As evidenced in this improved financial balance, HUGO BOSS was not only able to finance the higher investments and dividends from its current cash flow, but was moreover able to generate additional liquid funds. At 66 million DEM, the free cash flow at the pre-dividend stage – defined as the sum of all the factors that tie up and release funds – was appreciably higher than in the previous year (-5 million DEM). Even after dividend payments of 49 million DEM, the free cash flow remained at 17 million DEM – an amount we were able to invest in short-term interest-bearing securities.

HUGO BOSS' capacity for financing its own operations is further underscored by the cash flow to liabilities ratio which rose from 0.8 to 1.1.

Segment Information by Product Areas

	1999			1998
	HUGO BOSS Group DEM mill.	BOSS Womenswear Segment DEM mill.	HUGO BOSS Menswear Segment[2] DEM mill.	HUGO BOSS Group DEM mill.
Sales	1,472.5	–.–	1,472.5	1,337.0
Operating income	214.7	–.–	214.7	188.0
Non-recurring and extraordinary items	(12.4)	(0.2)	(12.2)	(6.5)
Net income	110.5	(0.2)	110.7	97.3
Assets	722.6	34.3	698.1[1]	652.2
Liabilities	286.4	15.0[1]	281.2	289.0
Net equity	436.2	19.3	416.9	363.2
Investments	91.7	18.2	73.5	58.2
Number of employees (on the annual average)	2,581	22	2,559	2,195

[1] In each case including a loan from the BOSS men's to the BOSS women's segment (9.8 million DEM). This amount was eliminated in the HUGO BOSS Group data.
[2] Existing men's collections business. Amounts attributable to HUGO Woman have been included for simplicity's sake.

Segment Information by Regions

Sales	1999		1998	
	DEM mill.	in %	DEM mill.	in %
Germany	500.9	34	472.9	36
Rest of Europe	565.2	39	500.2	37
America	252.6	17	228.1	17
Other regions	91.4	6	78.7	6
Royalties	62.4	4	57.1	4
Total	**1,472.5**	**100**	**1,337.0**	**100**
Assets[1]				
Germany	278.0	39	287.3	44
Rest of Europe	240.0	33	172.5	26
America	161.9	22	149.6	23
Other regions	26.2	4	24.1	4
Royalties	16.5	2	18.7	3
Total	**722.6**	**100**	**652.2**	**100**
Additions to fixed assets[2]				
Germany	16.6	18	31.2	54
Rest of Europe	46.4	50	12.9	22
America	27.2	30	11.3	19
Other regions	1.5	2	2.8	5
Royalties	–.–	–	–.–	–
Total	**91.7**	**100**	**58.2**	**100**

[1] Determined by the location of the assets. Assets resulting from Group relationships were eliminated.
[2] Determined by the location of the investments. Investments resulting from Group relationships were eliminated.

Segmental Reporting

New Womenswear Segment

The project with which we are entering the womenswear market has simultaneously led to the creation of an independent segment within the Group. In the future, we will be reporting separately on this new segment at regular intervals.

This segment is affecting our annual figures for the first time in 1999. Given the fact that we have capitalized the pre-operating expenses, the statement of income merely reflects the establishment costs of some 0.2 million DEM. A total of approximately 18 million DEM was invested in the purchase of a property and in office equipment. Other assets in the sum of 16 million DEM were generated in part by the pre-operating expenses and VAT claims.

Geographic Segmentation

In addition to the other turnover developments explained above, geographic segmental reporting will analyze the assets and investments according to region.

Receivables, the most significant component of the assets, are distributed throughout the regions at levels comparable to sales, for there are no appreciable discrepancies in payment terms and patterns. The differences in the geographical distribution of assets are determined mainly by the locations of the Group's logistics operations.

HUGO BOSS' logistics processes are still strongly concentrated at its headquarters in Germany. The central warehouses are located here, as is the Group's own finishing plant and hence a considerable portion of its inventories and fixed assets. In the United States and Canada we maintain our own warehouses for supplying the local markets; this increases our capital requirements.
In the European countries outside Germany, we have maintained sales companies with lower funding needs until now. The two major projects – the women's collection and the production plant in Turkey – have rendered the region far more significant in 1999 than in 1998.
Despite the differences, the Group's asset distribution throughout these geographical territories remains relatively homogenous. In contrast, investments during 1999 deviate sharply from sales from a geographical perspective. Whereas spending in Germany was confined mainly to limited modernization projects and equipment replacements, 50 % of the Group's total investments (previous year: 22 %) went into major projects in Europe outside Germany: the production plant in Turkey and the BOSS women's collection. Our takeover of trademarks in the U.S. has greatly augmented our investment volume there. 30 % of our new assets were acquired in the Americas during 1999, compared to 19 % in 1998.

Ratios per Share

		1999 EUR	1998 EUR	Change in %
Consolidated net income		8.02	7.07	13
Earnings according to DVFA/SG[1]		8.51	7.14	19
Cash flow		10.37	9.07	14
Dividend	Preferred share	4.07	3.56	14
	Common share	4.00	3.49	15
Dividend incl. tax credit	Preferred share	5.81	5.08	14
	Common share	5.71	4.98	15
Year-end share price	Preferred share	127.00	148.74	(15)
	Common share	118.00	130.15	(9)

[1] Both years' figures calculated on the basis of the 1999 Joint DVFA/SG Recommendation (3rd Edition).

HUGO BOSS Shares Compared to the DAX

	HUGO BOSS Common Share	HUGO BOSS Preferred Share	DAX
Price-earnings ratio 1999[1]	13.9	14.9	30.2
Dividend yield in %[2]	4.8	4.6	1.6
Market capitalization-sales ratio 1999[3]	1.1	1.1	1.3

[1] Share prices at the end of 1999 in relation to earnings in the business year closest to the 1999 calendar year. Earnings forecasts by I/B/E/S. Source: Datastream.
[2] 1999 dividends incl. tax credits in relation to share prices at the end of 1999.
[3] Market capitalization at the end of 1999 in relation to sales figures in the business year closest to the 1999 calendar year. Sales forecasts by I/B/E/S. Source: Datastream.

1999 from the Stakeholders' Perspective

Shareholders

Cautious Valuation of HUGO BOSS Shares

At December 30, 1999, HUGO BOSS preferred shares were listed at 127 Euro and common shares at 118 Euro. Compared with the price at the start of 1999, this reflects a decline of 15 % for preferred stock and 9 % for common shares. HUGO BOSS shares thus outperformed the CDAX-Textil industry index, but closed below the general German DAX index, which rose 39 % over the same period.

There was a general shift in investor demand towards young, fast-paced industries, e.g. telecommunications and internet services. This trend also sparked falls in the share prices of companies displaying powerful growth in other sectors; it affected our shares as well, contributing to the unfavorable developments of 1999. Moreover, the capital market appears to be attaching greater importance to the current burden on results from establishing the BOSS women's collection than to its potential for future gains. During the year 2000 we will continue to report on this project's progress and earnings potential, and remain confident that considerable increases in the share prices can be achieved.

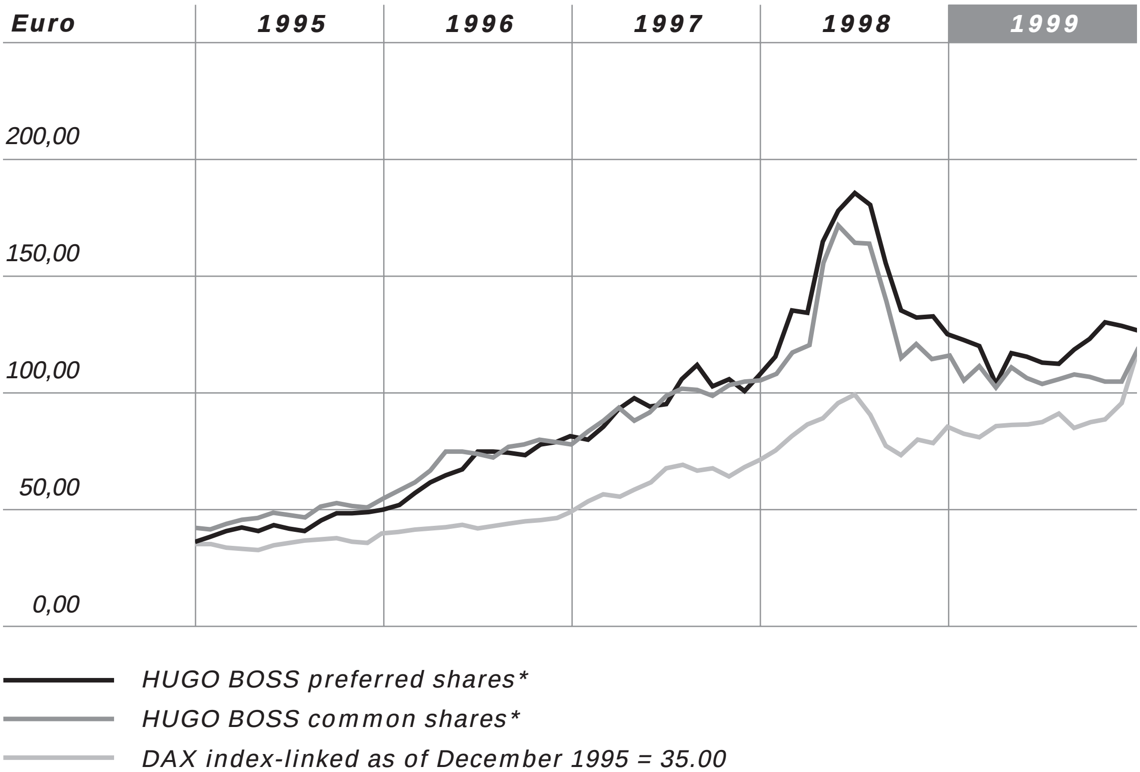
HUGO BOSS Share Ratios

This optimism is based on a comparison between the DAX ratios and key ratios for our shares.
Net earnings per share showed a higher percentage increase than sales, rising from 7.07 Euro to 8.02 Euro. As defined by the DVFA/SG ("German Association of Financial Analysts and Investment Consultants/Schmalenbachgesellschaft") the result per share rose by 19 % Euro to 8.51 Euro. Based on the price at December 30, 1999, the price-earnings ratio of HUGO BOSS preferred shares is 14.9 and lower than the DAX's weighted average of 30.2. This reflects both the good earnings position of 1999 and a relatively cautious assessment of our shares. During the year under review, the share price-turnover ratio for the period fell from 1.4 to 1.1, i.e. to a comparatively low level (DAX: 1.3).

Dividend Up Again

For the 1999 business year, the Management Board and Supervisory Board are recommending a dividend of 4.07 Euro per preferred share and 4.00 Euro per common share to the Shareholders Meeting. Shareholders subject to taxation in Germany will also receive the full tax credit of 1.74 Euro and 1.71 Euro respectively. Including the tax credit, the gross dividend yield totals 4.6 % per preferred share and 4.8 % per common share. This puts the dividend roughly on a par with fixed-interest bearing bonds and renders it clearly superior to the DAX's 1.6 %.
The total dividends paid out – a sum of 56 million DEM – correspond to 50 % of Group profits. This reflects our earnings-oriented dividend policy which enables shareholders to participate directly in our profits.

Share Price Development 1995–1999



*Share price movement adjusted for dividend distribution.

Sustained Added Value

Investments in HUGO BOSS in the medium and long terms are particularly worthwhile. Our shares exhibit consistent growth without any notable volatility; they have also performed better than the market as a whole in the medium and long terms. Including dividend payments, HUGO BOSS preferred shares gained an annual 28 % in value over a five year period (December 1994 – December 1999), slightly higher than the average rise in the DAX index (+27 % p. a.). Viewed over the period from the initial issue at the end of 1985, HUGO BOSS preferred shares have gained an average 19 % per year, performing markedly better than the DAX (+12 % p. a.). An investor who purchased HUGO BOSS original-issue preferred shares for 10,000 DEM and reinvested the net dividends would have accrued assets of 108,654 DEM by the end of 1999.

Denomination and Distribution of HUGO BOSS Shares

The Shareholders Meeting of May 17, 1999 approved the introduction of no-par-value shares. At the same meeting the equity capital was converted to Euro and the number of shares increased by means of splitting at a ratio of 1 : 11. As a result the total number of shares is now 7,040,000, of which 3,586,000 are common stock and 3,454,000 preferred stock.

To align the equity capital with the new, higher balance sheet positions, the former was increased by means of capital surplus capitalization. The equity capital per share is therefore 5 Euro.

The majority shareholder, Marzotto GmbH, Germany, continues to hold 50.4 % of the shareholders' equity (78 % of the common shares and 22 % of preferred stock). The remaining share capital is widely distributed among private and institutional investors.

Investor Relations Activities

The objective of our investor relations activities is to establish open, up-to-date and comprehensive communications with shareholders and the financial world. This helps analysts reach an accurate assessment of HUGO BOSS shares while building confidence in HUGO BOSS stock among shareholders and potential investors alike. The shareholders meetings, annual report, quarterly reports and interim reports all form core elements within this context.

The latest and most important information for shareholders is also published on the HUGO BOSS homepage at www.hugoboss.com. The website contains current share prices, the annual and interim reports, quarterly publications and a complete set of the company's press releases.

In 1999, the HUGO BOSS management once again paid regular visits to the leading financial centers in Europe and the U.S.A.; there it held presentations elaborating on the developments documented in the annual and interim reports and on the company's prospects for the future. As is the case every year, we again provided additional information for representatives of the financial world at two DVFA analyst conferences. Beyond this, numerous press releases ensured that the public was kept up to date on business developments.

Staff

Average Employees	1999	1998	Change in %
- by regions			
Germany	1,319	1,254	5
Rest of Europe	579	287	102
America	581	562	3
Other regions	102	92	11
Total	**2,581**	**2,195**	**18**
- by functions			
Production/Logistics	1,495	1,248	20
Sales/Creative	741	644	15
Administration	345	303	14
Total	**2,581**	**2,195**	**18**
Personnel expenses (total DEM million)	196.6	179.3	10
Personnel expenses per employee (DEM thous.)	76.2	81.7	(7)
Net value added per capita (DEM thous.)	157.7	168.2	(6)

Other Stakeholders

Distribution of Net Value Added	1999		1998	
	DEM mill.	in %	DEM mill.	in %
Net value added	**406.9**		**369.1**	
thereof to:				
Shareholders (dividends)	55.5	14	48.5	13
Employees (personnel expenses)	196.6	48	179.3	49
Government (taxes)	95.7	23	87.9	24
Creditors (interest)	4.0	1	4.6	1
Company (retained earnings)	55.1	14	48.8	13
Net value added	**406.9**	**100**	**369.1**	**100**

Staff

Employee Numbers and Personnel Costs Up

In 1999, the HUGO BOSS Group employed an average of 2,581 staff, 386 more than the previous year. The increase was due to several factors: the continuing set-up of our new production facility in Turkey and the BOSS women's operations in Milan, as well as the further expansion of our sales organization. Personnel costs totaled 197 million DEM (1998: 179 million DEM). At +10 %, these costs rose proportionally lower than staff numbers. Per capita costs dropped from 82 thousand DEM to 76 thousand DEM.

Our new production plant in Izmir commenced operation in August as planned. At year's end we hired 449 new staff members; the average for the year was 232. The majority, 186 people, were employed in the production sector.
In 2000 we will be launching a second production shift and will therefore be increasing the workforce there to a total of some 900.

The staff in Milan commenced work at HUGO BOSS S. p. A., the new company established for the BOSS women's collection. The majority took up their posts in the second half of the year. At December 31st, 54 people were employed, putting the year's average at 22.

Excluding the appointments made for major projects, the number of staff working in administration increased only slightly within the Group. At HUGO BOSS AG we hired three additional people, while the subsidiaries employed two new members of staff.

In the Sales/Creative area, an average of 741 staff members were employed at the HUGO BOSS Group during 1999. This constitutes an increase of 97 or 15 % compared to the year before. Additional jobs were created particularly by the expansion of the HUGO BOSS AG sales force (+30 people). Following the expiration of the contract with our Canadian agency, we incorporated its sales team (+14) into our company. In addition, there were increases in personnel at our subsidiaries in Great Britain (+3), the Netherlands (+9) and Japan (+10). At our retail business "Holy's", nine additional people were appointed at the new shop in Munich.

More people were also employed in inventory management within the HUGO BOSS Group. These supplemental staff – 13 at HUGO BOSS AG and 11 at other logistics centers – were required to handle the burgeoning volumes.

Outstanding Staff: the Platform for Success

At the HUGO BOSS Group, we employ a sound balance of qualified general staff, specially skilled individuals with many years of experience, and promising junior staff. The average age throughout the Group is 37, and just 34 for salaried employees. Our people all share an open-minded, cosmopolitan outlook and a strong sense of commitment to their work.

Successful recruiting along with strategic training and continuing education are vital to our efforts to maintain top performance. When recruiting promising junior staff, we are now additionally advertising open positions on the internet. Advertisements are also being posted in schools to attract suitable candidates for apprenticeships. Highly qualified trainees and college graduates are being targeted through the national press. Furthermore, several students who absolved internships and thesis project work in Metzingen were subsequently awarded permanent positions. Our cooperation with the Fashion College in Nagold continues to prove very fruitful. Within the scope of biannual workshops in Metzingen, we have also managed to recruit suitably qualified junior staff for our national and international sales organizations.
The national trainee program continues to be successful. This past year the focus has been on logistics; three interns were trained for senior positions. Our subsidiaries in France and the U.S. have also hired graduates from our international trainee program to fill local positions of responsibility.

The year 1999 also saw HUGO BOSS expand its range of internal and external seminars. This effort is evidenced in the Group's expenditures for training and further education; these have seen a sharp double-digit rise. The multi-track HUGO BOSS Management Academy established as part of the sales training program was concluded at the end of November. In addition to teaching general management skills, the training modules also enabled participants to share their experiences on an international level. These contacts are to be cultivated and extended in a sequel program.

Staff Support

The current political debate on pensions illustrates the growing necessity for private old-age provisions. With the objective of promoting private initiatives, HUGO BOSS AG is offering all its staff the opportunity to invest part of their salaries in a capital sum life insurance scheme. The staff member pays the premium and HUGO BOSS AG the lumpsum tax that falls due.

1999 also marked the institution of a staff profit sharing account at the company. When pre-defined corporate goals are achieved, a specific profit share – the amount is fixed annually – is credited to an internal account for each staff member. This account draws interest, and the balance is paid out when the individual leaves the company after at least five years of employment. This scheme allows staff to benefit directly from our company's success.

Thanks and Recognition

In 1999 HUGO BOSS achieved record profits for the ninth consecutive year. The commitment and skill of our human resources have once again proved the cornerstone for this success. The management would like to take this opportunity to express its gratitude and appreciation for this year's dedicated performance on the part of its workforce.

Other Stakeholders

As a corporate entity, the HUGO BOSS Group is interconnected with a variety of stakeholders in its environment.
One primary goal of commercial enterprise is customer satisfaction. For the end consumer, this ultimately means product satisfaction; for the retail trade, it signifies service and profitability. If the company achieves its goals, retailers will also profit from rising sales. Suppliers' volumes will automatically increase as well. These interdependencies are mirrored in the breakdown of the net value added, which expresses the balance of a company's sales and expenses. The net value added at HUGO BOSS rose by 10 % in 1999, from 369 to 407 million DEM. The distribution of this total reveals the significance of other stakeholders for the Group.

Personnel expenses, including non-recurring items, increased by 17 million DEM to a total of 197 million DEM, putting this area's share in added value down from 49 % to 48 %.

On the one hand, our shareholders participate directly in the net value added by way of dividends totaling 56 million DEM; their share went up to 14 % (1998: 13 %). On the other hand, they also profit from the company's retained earnings. Following a rise of 49 million DEM in 1998, these swelled by a further 55 million DEM in the year under review.

The general public constitutes a further group of stakeholders benefiting from our added value; its share – via the taxes we pay – equaled 23 % in 1999 (1998: 24 %). Our total tax burden in 1999, comprised largely of corporate and trade tax, amounted to 96 million DEM – up 8 million DEM from 1998.

Due to HUGO BOSS' substantial self-financing capabilities, the significance of banking institutions as lenders continued to be slight in the year under review. At 4 million DEM, interest paid to creditors was even lower than the previous year. Its share in the value-added equation remained at 1 %.

The Year 2000

2000 in Figures

Upsurge in Sales and Result Anticipated

Based on the orders already registered for the Spring/Summer collection, we are anticipating additional sales of some 8 % to 10 % for the year 2000.

Through renewed increases in our existing operations' profitability – and despite the extraordinary influences of major projects – net income will rise roughly on a par with sales.

Sales Developing Well in All Regions

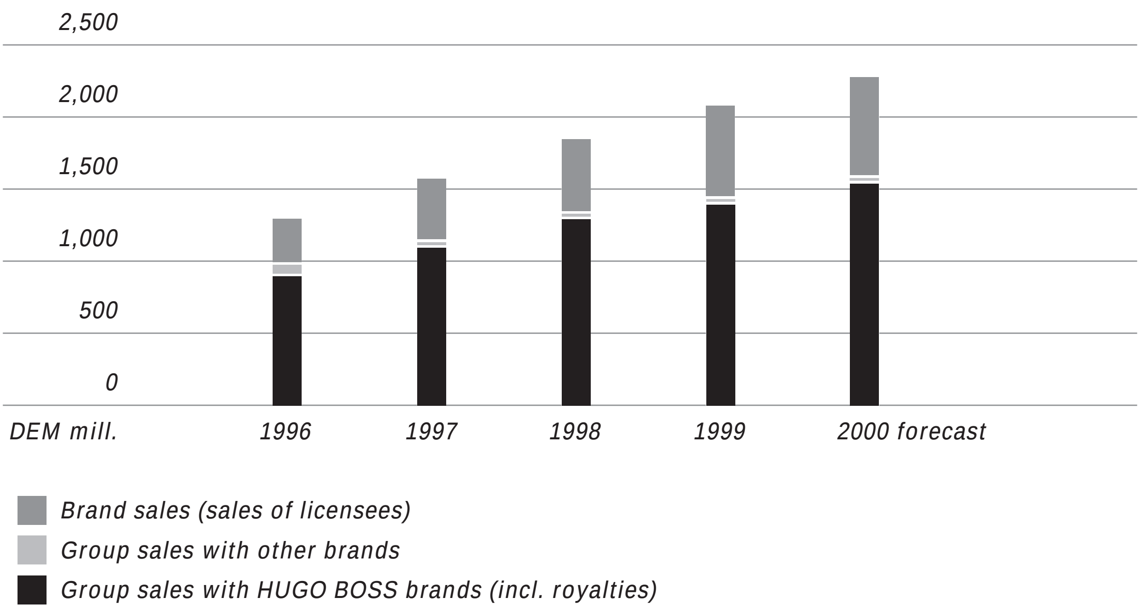
In Germany, where analysts expect the pace of the economy to pick up, we will achieve another increase in sales. Sportswear, with its projected strong double-digit plus in turnover, is slated to act as the primary growth engine.

We believe that the healthy turnover improvements in Western Europe during 1999 will carry over into 2000. In the key markets of France, Italy and Spain, we should once again record double-digit growth. Similarly, there is every indication of a continuing powerful upswing in sales in the U.S.A.

The situation in Southeast Asia will, in our estimation, improve markedly. Now that the economic crisis has been overcome and consumer spending is on the rise, we are forecasting high double-digit growth for the entire region.

At this point, future developments in Japan and the problematic economies of Eastern Europe are difficult to predict. For Japan, we nonetheless anticipate that revenues will at least remain stable; in Eastern Europe we expect a slight plus.

Licensing income is likely to show further increases in the year 2000. Powerful impulses are expected from the bodywear and shoes product groups, along with the BOSS license for leather accessories granted in 1999. The new HUGO brand eyewear line will also generate additional income.



Moderate Rise in Operating and Personnel Expenses in the Core Business

Based on our estimates, the contribution margin is expected to rise in absolute terms compared to turnover: we foresee stable prices in the areas of sales and purchasing. As the foreign currencies significant for us have been valued at relatively high rates in recent months, we are assuming that currency conversion will not negatively impact the gross margin. Whereas the contribution margin should hold firm in percentage terms, the gross margin as defined by commercial law is due to rise by some 1 %; this is caused by external production services being rendered internal as a result of the new production venue in Turkey, and hence appearing largely as personnel expenses.

The operating and personnel expenses in our core business – without the influence of the major projects – will rise at a rate lower than sales. This is the fruit of substantial spending on showrooms, production and logistics over the past years, expenses that have cemented the solid platform required for further growth. In addition, the accelerating personnel costs of previous years, attributable mainly to the expansion of the sportswear segment, will slow down markedly for the core business. We will be stepping up spending for marketing activities, with the chief focuses being trade marketing and print advertising.

With the gross margin increase commensurate with sales growth, and operating and personnel expenses expected to rise moderately, we are planning on core business earnings achieving solid double-digit growth.

Special Impact of Projects

Three major projects promising substantial returns in the medium term will continue to exert a negative impact on HUGO BOSS' earnings position in 2000.

Commencing in 1999, the set-up of our production facility in Turkey proceeded on track in terms of time and cost, and will be completed in 2000. At mid-year we are planning to introduce a second production shift, and will therefore be increasing our workforce by 400 additional staff. This expansion will put production at full capacity – and thus begin to generate profits towards the end of the second half of the year. The project's drain on results, still 6 million DEM in 1999, will be reduced to a very small amount in 2000.

BOSS Women's Collection Due in Summer

The creation of the BOSS women's collection is also running according to schedule. During the year under review we were able to establish the infrastructural platform for this project in the shape of an attractive building in Milan. Moreover, we have also succeeded in filling the organization's management positions and all the posts in its creative and model development areas. Work on the zero collection began in mid-1999. Presented internally in January 2000, this collection met with great enthusiasm on the part of our sales managers. The trial collection enabled us to implement the relevant processes and optimize our logistics concept. At mid-year we will be presenting the first Spring/Summer collection to our customers around the world. Deliveries are scheduled to start at the end of 2000, giving final consumers the opportunity to see and buy BOSS Woman products.

By year's end we plan to increase human resources for the women's collection to 130 people. Of this total, 30 staff currently employed at our subsidiaries and at HUGO BOSS AG will assume sales duties, while the remaining 100 people will work from the Milan venue. The operating and personnel expenses incurred for the

plan to capitalize pre-operating expenses of 20 million DEM without affecting the statement of income.

Necktie Business Taken Over

Beyond opening the production facility in Turkey and creating the women's collection, we are also planning to institute structural changes in the necktie business. This product group, organized to date as a licensing operation, is to be developed, produced and marketed under our own direct management in the future. To this end we will be setting up a necktie division at our Swiss subsidiary Della Croce. In mid-2000 we will present our own necktie collection to our customers, with deliveries starting in January 2001. Since there are no revenues this year to offset against the initial startup costs, the project will constitute a 3 million DEM burden on the consolidated results. As early as 2001 we will, however, be passing the breakeven point and begin reporting clear profits.

On the whole, these three projects will lower Group results in 2000 by the sum of 15 million DEM compared to 1999. Since we expect to clearly improve profitability in our core business, the earnings after taxes for our operations as a whole should rise at a rate parallel to sales.

Excellent Medium-Term Prospects

The above three projects will still affect the results for 2000, but will have a pronounced positive impact on our profits in the very near future.

The production plant in Turkey and the necktie business are expected to return profits as early as 2001. We are anticipating that year's results to exhibit a 4 million DEM improvement over 2000, solely as a result of achieving profitability.

The women's collection will continue to place a strain on the consolidated results in 2001, although the burden will be appreciably lighter than in 2000. This project is also poised for profitability by the year 2002. Together with the greater net income generated by current business, the next two years can therefore be expected to bring significant increases in profits.

Risk Management: An Integral Component in Corporate Leadership

Companies operating in today's fast-changing world can only be managed successfully if they are capable of identifying and proactively controlling risks.

Our risk management system has undergone further refinement following the ratification of the (German) Law on Control and Transparency in the Corporate Sector (German abbreviation: KonTraG). Since then it has also been reviewed and approved by our auditors. This finely-tuned system ensures the early identification and evaluation of risks, and stipulates the measures to be taken when risks do arise.

Our risk management system is predicated on defining clear goals and monitoring progress towards their achievement. A multi-level planning and reporting system guarantees that all decision-making bodies – particularly our Management and Supervisory Boards – are kept informed of unexpected developments and are thus in a position to institute effective counter-measures.

Currency Conversion Risks Declining

HUGO BOSS does business around the world in a range of key currencies. Of these, the Canadian dollar, the British pound and the Japanese yen figure most significantly in terms of risk. Fluctuations in the value of the U.S. dollar have very little impact in the short term because U.S. dollar sales and purchases generally balance each other out. The exchange rates of other foreign currencies relevant to our operations have been fixed following the introduction of the common European currency, thereby eliminating the conversion risks of the past.

Fluctuations between the Euro and the other HUGO BOSS invoicing currencies can potentially affect the operating result and financial positions in the consolidated report. We combat this risk by pursuing a conservative hedging policy, with hedging contracts covering at least 50 % of the net exposure from currency conversion at the projected rate. This strategy reduces the risk of losses to a maximum of 5 % of the consolidated result.

Calculable Risks during Economic Crises

In addition to inducing exchange rate fluctuation, economic crises can also spark slumps in consumer spending and hence reduce the demand for our products. However, the share of our sales in regions prone to crisis is relatively small, comprising less than 10 % of our total turnover. The appeal and popularity of our brands serve to reduce risks still further. Particularly in struggling economies, the HUGO BOSS name offers a significant edge over competitors in terms of negotiating power, e.g. when collecting receivables.

Another frequent negative side effect of an ailing economy is a waning inclination to pay on the part of customers, with the consequence of discounts on accounts receivable. We reduce these risks by assigning a large part of our receivables to factoring companies who also insure our claims against losses. Internal guidelines regulating credit lines and deliveries of goods to customers with unsatisfactory credit ratings guarantee that this risk is also minimized for our other receivables.

Trademark Infringement

Infringements against our trademarks in many parts of the world continue to pose a major commercial problem – one that we continue to combat vigorously. Although no major litigation is currently pending, this issue entails the future risk of substantial legal expenses.

Reorientation in Insurance Philosophy

This past year we established a new focus in our insurance strategy. All of our local insurance policies were harmonized and integrated into a global insurance package. Within the scope of this reorientation, we have increased the Group's insurance against major existential risks and raised the deductibles for lesser risks. In doing so, we have reduced our overall premium while simultaneously improving our insurance protection against critical risks.

Further Information on the Financial Statements and the Majority Shareholder

Proposal for the Appropriation of Profits

The consolidated financial statements as of December 31, 1999 and the 1999 Group management report have been prepared by us in compliance with legal requirements.

The financial statements of HUGO BOSS AG as of December 31, 1999 show an unappropriated income of 55,549 thousand DEM. In agreement with the Supervisory Board, the Management Board proposes to the shareholders' meeting that this income be appropriated as follows:

	EUR thous.	DEM thous.
1. Distribution of a dividend of 4.00 EUR per common share 3,586,000 common shares	*14,344*	*28,054*
2. Distribution of a dividend of 4.07 EUR per preferred share 3,454,000 preferred shares	*14,058*	*27,495*
Unappropriated income of HUGO BOSS AG	***28,402***	***55,549***

Information Concerning the Majority Shareholder

HUGO BOSS AG was notified according to Section 20 (4) of the AktG (German Stock Corporation Law) and Section 21 (1) WpHG (Securities Trading Act) that Marzotto GmbH, Frankfurt/Main, a company controlled by Marzotto S.p.A., Valdagno, Italy, owns the majority of the voting shares. The controlling interest of Marzotto GmbH, Frankfurt/Main, consists of 2,784,001 common shares (77.6% of common stock) and 761,200 preferred shares (22.0% of preferred stock). This represents an interest of 50.4% of the total shares.

Report on Relations with Affiliated Companies

As no control agreement has been signed with the majority shareholder, the Management Board of HUGO BOSS AG was required by law to submit a report concerning its relationships with affiliated companies pursuant to Section 312 of the German Stock Corporation Law (AktG). This report detailed the relationship with the Marzotto Group. In accordance with Section 312 (3) of such law, the Management Board declared that, considering all facts known to the Board at the time legal transactions took place or measures were taken, the corporation received appropriate compensation for each instance. There were no measures entailing an obligation to report in the 1999 financial year.

Auditors' Report

We have audited the annual consolidated financial statements and the group management report of the HUGO BOSS AG, Metzingen, for the business year from January 1, 1999 to December 31, 1999. The preparation of the annual consolidated financial statements and group management report in accordance with German commercial law and supplementary provisions in the articles of incorporation are the responsibility of the Management Board. Our responsibility is to express an opinion on the annual consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the annual consolidated financial statements in accordance with § 317 HGB (German Commercial Code) and under the observance of the generally accepted standards for the audit of financial statements promulgated by the German Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual consolidated financial statements drawn up in accordance with German principles of proper accounting, and in the group management report are detected with reasonable assurance.

Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the annual consolidated financial statements and in the group management report are examined primarily on a test basis within the framework of the audit. The audit includes the evaluation of the subsidiaries' financial statements, the inclusion or exclusion of subsidiaries in the consolidation, the account and consolidation principles and significant estimates made by the Management Board, as well as evaluating the overall presentation of the annual consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with German principles of proper accounting. On the whole, the group management report provides a suitable understanding of the group's position and suitably presents the risks of future development.

Stuttgart, February 21, 2000

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagner
Wirtschaftsprüfer

Möhler
Wirtschaftsprüfer

Report of the Supervisory Board

Report of the Supervisory Board

By means of written and oral reports from the Management Board throughout the 1999 financial year, the Supervisory Board kept well informed about the company's situation and fundamental policy decisions, and consulted with the Management Board about these issues. Four regular meetings were held for this purpose. The working committee of the Supervisory Board met with the Management Board on seven further occasions. As in previous years, these meetings included a management conference lasting several days and dealing primarily with the issues surrounding the long-term strategic orientation of the HUGO BOSS Group.

The Management Board regularly kept the Supervisory Board up to date on the Group's economic situation and on developments in both the markets and the company's individual divisions. On the basis of regular reporting comparing current figures with those in the budget and from the previous year, the Supervisory Board has come to the conclusion that the Management Board is managing and operating the business in an orderly manner and has taken effective and timely action where necessary. Additionally the Supervisory Board has concerned itself extensively with company planning, focusing on the detailed budget for 2000 and the mid-term planning for 2001 and 2002. The Management Board's steps towards identifying and monitoring risks were also the subject of much deliberation. The Supervisory Board further focused its attention on costs and the cost-cutting measures instituted by the Management Board.
Business matters requiring the approval of the Supervisory Board as provided by law or the company statutes were discussed extensively before decisions were made. In this context, the Supervisory Board approved the proposal to establish a subsidiary to develop the Mexican market: HUGO BOSS Mexico S.A. de C.V. It further sanctioned plans to erect a new administrative building at the group's headquarters in Metzingen in conjunction with a leasing company. Following the submission of a corresponding business plan, the Supervisory Board gave the green light for the Group's takeover of the former licensing operation for the product group "neckties". Pursuant to this plan, neckties will be purchased and distributed via a HUGO BOSS AG subsidiary – Della Croce & CI S.A. – as of the 2001 Spring/Summer season with the aim of improving earnings.

A major focus of the Supervisory Board's work in 1999 was the supervision of the two major projects at HUGO BOSS: the worldwide launch of a BOSS women's collection and the set-up of a production plant in Turkey. The Management Board kept the Supervisory Board up to date on the on-track development of both projects; its regular reports gave the latter a clear understanding of the projects' status. Prior to any major decisions on project personnel and investments, the Supervisory Board was informed and, where necessary, its approval was obtained.

Pursuant to new legislation, the Supervisory Board formally commissioned the auditors chosen by the Shareholders Meeting – PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft – to perform the audit, and stipulated the audit's main focus.

The financial statements and the consolidated financial statements, as well as the management reports for the AG and the Group, have been duly examined by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, and found to be in order. An unqualified audit certificate was issued. The Supervisory Board has also duly examined the financial statements and the consolidated financial statements, the management reports for the AG and the Group, and the proposal for the appropriation of profits. The auditors were party to the deliberations with the working committee and the Supervisory Board. The report of the auditors' examination has been received by the Supervisory Board and has not given rise to any objections from that quarter.

The Supervisory Board has accepted the financial statements as prepared by the Management Board, and same are now deemed approved. The Supervisory Board agrees with the proposed appropriation of profits as recommended by the Management Board.

The Management Board also prepared a report on the relations between the company and its affiliates and submitted this to the working committee and Supervisory Board together with the auditors' report. The auditors have given the following opinion:
"Based on our audit performed in accordance with our professional duties, we confirm:
1. that the information in the report is stated correctly; and
2. that with respect to the legal transactions cited therein, the company's contribution was not inappropriately high."
The examination of the report by the Supervisory Board did not give rise to any objections. The Supervisory Board endorses the findings of the audit conducted by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. Hereafter and based on the outcome of its own review, the Supervisory Board raises no objections to the declaration made by the Management Board in regard to the relations between the company and its affiliates.

The Supervisory Board would like to express its gratitude and recognition to the Management Board, the members of the Works Council, and all the employees of the HUGO BOSS Group for a job well done.

Metzingen, March 3, 2000

The Supervisory Board

Prof. Dr. Johannes Semler
(Chairman)

Fashion Shows 1999

BOSS Fashion Show
Florence
June 24, 1999

HUGO Fashion Show
New York
February 16, 1999

Shop Openings 1999

BOSS Shop Opening
Milan
September 9, 1999

HUGO Shop Opening
Los Angeles
October 14, 1999

BALDESSARINI Shop Opening
Amsterdam
September 17, 1999

EVENTS: HIGHLIGHTS OF 1999

JANUARY	21	Showroom Opening, London
	23	Showroom Opening, Amsterdam
FEBRUARY	5–7	Men’s Fashion Week, Cologne
	16	HUGO Fashion Show, New York
MARCH	12	Holy’s Shop Opening, Munich
	30	Balance Sheet Press Conference, Stuttgart
APRIL	14	BOSS Shop Opening, Geneva
	29	BOSS Shop Opening, Tunis
MAY	17	Annual Shareholders Meeting, Stuttgart
JUNE	24	PITTI Immagine Uomo Special Event BOSS Fashion Show, Florence
JULY	30	HUGO Shop Opening, Duesseldorf
	30–8/1	Men’s Fashion Week, Cologne
AUGUST	5	BOSS Shop Opening, Sydney
	5	BOSS Shop Opening, Miami
SEPTEMBER	3	BOSS Shop Opening/Fashion Show, Hong Kong
	9	BOSS Shop Opening, Milan
	17	BALDESSARINI Shop Opening, Amsterdam (1st worldwide)
	21	HUGO Shop Opening, Montreal
	21–22	BOSS Shop Opening/Fashion Show, São Paulo
OCTOBER	4	BOSS Shop Opening, Athens
	7	Arts Sponsorship: “Francesco Clemente,” Guggenheim Museum, New York
	14	HUGO Shop Opening, Los Angeles
	19	BOSS Shop Opening, Istanbul
	29	BOSS Shop Opening, Reykjavik

Consolidated Financial Statements as of December 31, 1999

Consolidated Balance Sheet as of December 31, 1999

of HUGO BOSS Aktiengesellschaft, Metzingen

Assets	Notes No.	DEM thous.	Dec. 31, 1999 DEM thous.	Dec. 31, 1998 DEM thous.
A. Pre-operating and Business Expansion Expenses	(1)		7,788	–
B. Fixed Assets	(2)			
I. Intangible assets				
1. Industrial and similar rights			43,658	23,674
			43,658	**23,674**
II. Tangible assets				
1. Land and buildings incl. buildings on third-party land		63,345		44,107
2. Technical equipment and machinery		10,284		10,045
3. Other equipment, factory and office equipment		72,510		55,623
4. Prepayments made and construction in progress		1,446		3,091
			147,585	**112,866**
III. Financial assets	(3)			
1. Shares in affiliated companies		25		25
2. Participating interests in associated companies		4,992		3,470
3. Other investments		47		–
4. Other loans		351		19,045
			5,415	**22,540**
			196,658	**159,080**
C. Current Assets				
I. Inventories				
1. Raw materials and supplies		55,175		55,400
2. Work in process		11,267		9,892
3. Finished goods and merchandise		139,632		150,724
4. Payments on account		3,138		986
			209,212	**217,002**
II. Receivables and other assets	(4)			
1. Trade receivables		145,234		133,612
2. Receivables from associated companies		1,697		1,239
3. Other assets		46,629		42,698
			193,560	**177,549**
III. Liquid assets	(5)		106,532	92,165
D. Prepaid Expenses	(6)		8,881	6,391
			722,631	**652,187**

Equity and Liabilities	Notes No.	DEM thous.	Dec. 31, 1999 DEM thous.	Dec. 31, 1998 DEM thous.
A. Shareholders' Equity				
I. Subscribed capital	(7)			
1. Common stock		35,068		16,300
2. Non-voting preferred stock		33,777		15,700
			68,845	**32,000**
II. Capital surplus	(8)		781	37,626
III. Retained earnings	(9)			
1. Legal reserves		3,000		3,000
2. Other revenue reserves		252,681		192,925
			255,681	**195,925**
IV. Difference arising from capital consolidation	(10)		250	250
V. Consolidated net income for the year			110,463	97,346
VI. Minority interest			140	7
			436,160	**363,154**
B. Accruals				
1. Accruals for pensions and similar obligations		44,476		42,294
2. Tax accruals		28,430		16,478
3. Other accruals	(11)	88,258		72,935
			161,164	**131,707**
C. Liabilities	(12)			
1. Liabilities to banks		19,820		40,678
2. Trade payables		49,582		65,642
3. Liabilities to affiliated companies		3,926		2,803
4. Other liabilities		51,959		48,153
			125,287	**157,276**
D. Deferred Income			20	50
			722,631	**652,187**
Contingent Liabilities	(13)		13,805	10,629

Consolidated Statement of Income
for the Period January 1 to December 31, 1999
of HUGO BOSS Aktiengesellschaft, Metzingen

	Notes No.	DEM thous.	1999 DEM thous.	1998 DEM thous.
1. Sales	(14)		1,472,546	1,337,045
2. Decrease/increase in finished goods and work in process			–13,417	17,993
3. Capitalized pre-operating and business expansion expenses	(15)		7,788	–
4. Other operating income	(16)		64,218	52,557
			1,531,135	**1,407,595**
5. Cost of materials				
a) Cost of raw materials and supplies and of purchased merchandise		575,511		538,641
b) Cost of purchased services		149,971		151,134
			725,482	**689,775**
6. Personnel expenses	(17)			
a) Wages and salaries		167,831		151,063
b) Social security and other pension costs		28,783		28,229
			196,614	**179,292**
7. Depreciation of intangible fixed assets and tangible assets	(18)		34,016	26,016
8. Other operating expenses	(19)		368,854	330,986
			206,169	**181,526**
9. Income from associated companies			1,579	1,665
10. Other interest and similar income			6,509	6,630
11. Write-offs of financial assets and marketable securities	(20)		3,901	–
12. Interest and similar expenses			4,025	4,588
13. Income from ordinary activities			**206,331**	**185,233**
14. Taxes on income			94,185	86,358
15. Other taxes			1,559	1,581
16. Net income			**110,587**	**97,294**
17. Minority share of result	(21)		–124	52
18. Consolidated net income			**110,463**	**97,346**

Notes to the 1999 Consolidated Financial Statements of HUGO BOSS Aktiengesellschaft, Metzingen

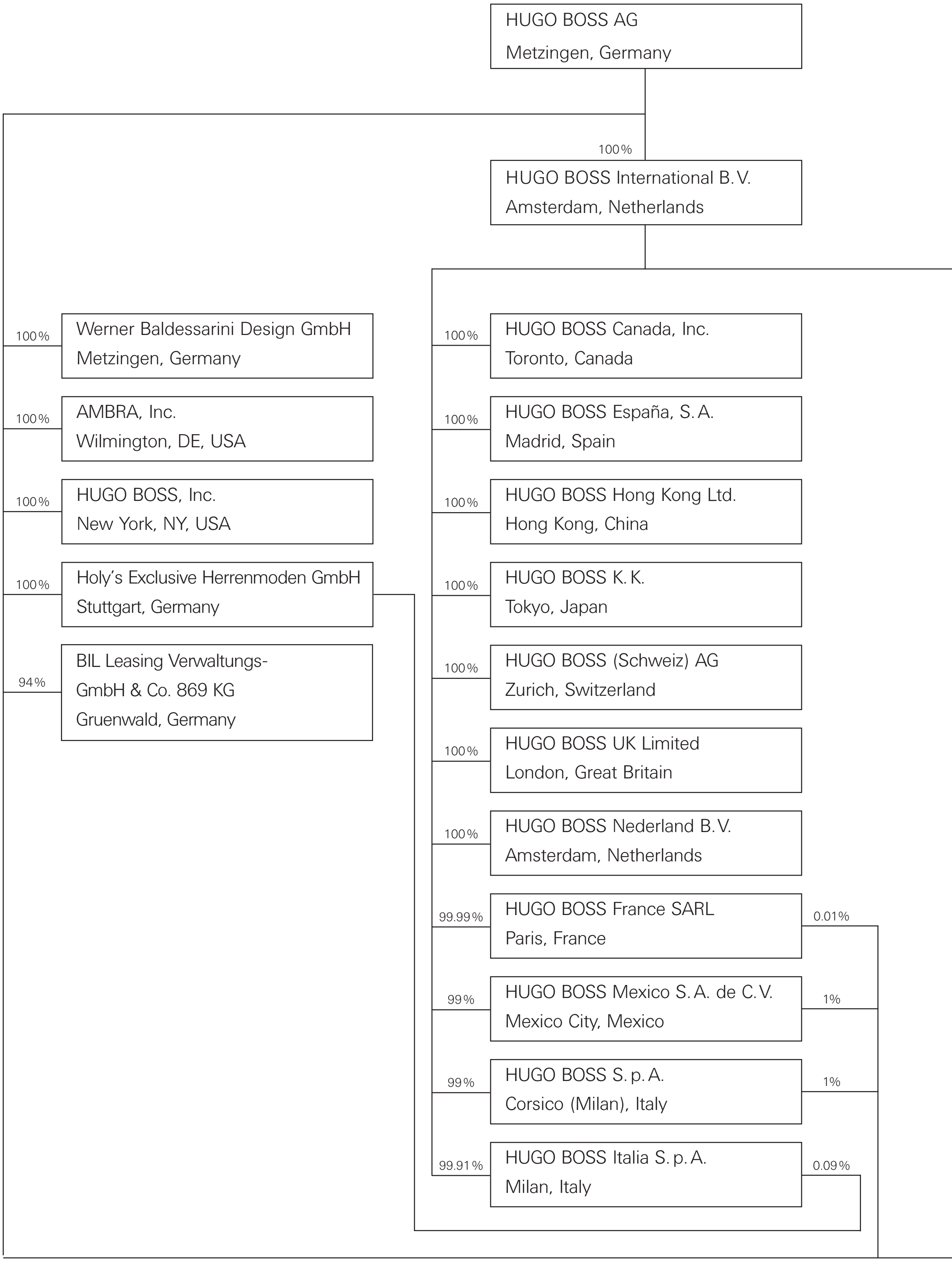
Accounting

The 1999 consolidated financial statements of HUGO BOSS Aktiengesellschaft have been prepared in accordance with the rules and regulations of the (German) Commercial Code (HGB) and the Stock Corporation Law (AktG).

To provide a clearer overview of the consolidated balance sheet and the consolidated statement of income, the comments and explanations on the individual items have been included in the notes. Items that were not applicable were not shown.

Marzotto S. p. A., Valdagno, Italy, holds the majority of the voting rights of HUGO BOSS AG via Marzotto GmbH, Frankfurt/Main. The consolidated financial statements of HUGO BOSS AG will be included in the consolidated financial statements of Marzotto S. p. A.

Investment Holdings pursuant to Section 313 (2) of the (German) Commercial Code



Consolidated Group and Principles of Consolidation

The consolidated group includes HUGO BOSS AG and subsidiaries in which HUGO BOSS AG directly or indirectly holds the majority of the shareholders' votes, namely:

HUGO BOSS Canada, Inc.
HUGO BOSS España, S. A.
HUGO BOSS France SARL
HUGO BOSS Hong Kong Ltd.
HUGO BOSS Italia S. p. A.
HUGO BOSS K. K.
HUGO BOSS (Schweiz) AG
Holy's Exclusive Herrenmoden GmbH
HUGO BOSS Holding (Brasil) Ltda.
HUGO BOSS do Brasil Ltda.
HUGO BOSS Holdings Pty. Ltd.
HUGO BOSS International B.V.
HUGO BOSS UK Limited
HUGO BOSS Nederland B.V.
HUGO BOSS USA, Inc.
HUGO BOSS Fashions, Inc.
HUGO BOSS Outlet, Inc.
HUGO BOSS Licensing, Inc.
The Joseph & Feiss Company
HUGO BOSS Cleveland, Inc.
AMBRA, Inc.
HUGO BOSS, Inc.
Bentex Holding S. A.
Della Croce & Ci S. A.
Eura 2000 S. A.
Della Croce SRL
HUGO BOSS Textile Industry, Ltd.
HUGO BOSS S. p. A.
HUGO BOSS Mexico S. A. de C.V.

HUGO BOSS S. p. A., founded in April 1999, and HUGO BOSS Mexico S. A. de C.V., founded in June 1999, were included for the first time.
Both companies were fully consolidated in 1999.

The activities of HUGO BOSS S. p. A., registered in Corsico (Milan), Italy, are comprised exclusively of setting up the BOSS brand women's collection. While these activities incurred expenses in the 1999 business year, no corresponding sales were yet realized during that period. In accordance with Section 269 of the (German) Commercial Code, pre-operating and business expansion expenses totaling 7,788 thousand DEM were capitalized in the consolidated balance sheet. Corresponding income is shown in the consolidated statement of income as capitalized pre-operating and business expansion expenses. Furthermore, the Group's fixed assets increased by 17,919 thousand DEM as a result of the initial consolidation of HUGO BOSS S. p. A.

The first consolidation of the sales subsidiary HUGO BOSS Mexico S. A. de C.V. registered in Mexico City had no structural effect on the consolidated statement of income and the balance sheet.

The associated company HUGO BOSS Australia Pty. Ltd. was included by using the equity method of accounting according to Section 312 (1) Clause 1 No. 2 of the (German) Commercial Code.
With one exception, the book value method was applied for the consolidation of subsidiaries' equity. The acquisition was offset against the share of equity at the date of acquisition or at the time of the initial consolidation. HUGO BOSS USA, Inc. was consolidated using the revaluation method.

Pursuant to Section 296 (2) of the (German) Commercial Code, Werner Baldessarini Design GmbH was not included.

The corporate objectives of BIL Leasing Verwaltungs-GmbH & Co. 869 KG, in which HUGO BOSS AG is a limited partner, are to erect an administrative building in Metzingen and enter into a long-term lease for such premises with HUGO BOSS AG. This company has not been included in the consolidated financial statements because there is no parent-subsidiary relationship with HUGO BOSS AG as defined by Section 290 of the (German) Commercial Code.

The holding company HUGO BOSS USA, Inc., the Brazilian holding company HUGO BOSS Holding (Brasil) Ltda. as well as Bentex Holding S.A. were subconsolidated according to German consolidation principles, including the subsidiaries of these companies.

The passive difference from the consolidation of equity resulting from the initial consolidation of Holy's Exclusive Herrenmoden GmbH and HUGO BOSS France SARL was carried forward without change according to Section 309 (2) of the (German) Commercial Code.

Receivables and payables between consolidated companies were offset; results from sales and services within the Group were eliminated. In the consolidated statement of income, internal sales and other income were offset with the respective costs and expenses.

The currency conversion of the subsidiaries' equity using the exchange rates at the balance sheet date resulted in an increase in retained earnings of 10,881 thousand DEM. In the year under review, currency conversion differences aggregating 3,474 thousand DEM from the consolidation of intercompany balances were shown as other operating expenses or, respectively, income. Conversion differences in the amount of -308 thousand DEM from consolidation of income and expenses have been reclassified as other operating expenses or, respectively, income without affecting results. Intercompany profits connected with deliveries and services (6,311 thousand DEM) and dividends paid out to HUGO BOSS International B.V. by Group companies (5,124 thousand DEM) were eliminated during the year under review with an effect on current-period results.

Intercompany balances resulting from deliveries and services to associated companies have not been eliminated as the amounts were immaterial. Where required, tax was deferred in regard to the consolidation procedures.

Index Figures of the Consolidated Companies of the HUGO BOSS Group

Company	**Sales [2]**		**Result**		**Equity**	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**
thous.	DEM	DEM	DEM	DEM	DEM	DEM
HUGO BOSS AG	726,497	754,684	77,446 [4]	113,648 [4]	322,780	296,278
HUGO BOSS USA, Inc. [1]	162,793	130,884	3,987	724	65,031	77,243
HUGO BOSS France SARL	124,856	111,712	10,886	10,517	57,650	46,767
HUGO BOSS UK Limited	84,739	38,839	11,155	4,300	16,681	4,291
HUGO BOSS Nederlands B.V.	57,572	1,760	4,527	(200)	4,362	(165)
Bentex Holding S.A. [1]	52,670	68,391	9,218	5,684	41,560	17,175
HUGO BOSS Canada, Inc.	51,354	47,775	1,800	1,452	10,658	6,987
HUGO BOSS Italia S.p.A.	45,115	39,194	2,316	1,073	7,717	5,400
HUGO BOSS K.K.	38,924	34,691	(707)	(255)	2,880	2,822
HUGO BOSS (Schweiz) AG	37,199	31,630	3,215	2,764	6,387	5,728
HUGO BOSS Australia Pty. Ltd.	31,605 [3]	23,232 [3]	3,158	2,005	9,984	6,939
HUGO BOSS Hong Kong Ltd.	28,764	20,608	2,725	1,571	4,053	2,467
HUGO BOSS España, S.A.	24,192	18,909	1,916	1,022	3,682	1,766
HUGO BOSS Holding (Brasil) Ltda. [1]	16,105	18,876	887	573	2,386	2,313
Holy's Exclusive Herrenmoden GmbH	12,667	12,055	(2,474) [5]	(3,234) [5]	1,140	1,140
AMBRA, Inc.	5,076	7,039	537	1,686	6,626	5,194
HUGO BOSS Mexico S.A. de C.V.	4,121	–	451	–	981	–
HUGO BOSS S.p.A.	–	–	(5,346)	–	14,212	–
HUGO BOSS International B.V.	–	–	5,098 [6]	46,754 [6]	154,291	149,022
HUGO BOSS Textile Industry Ltd.	–	–	(6,018)	(812)	2,169	4,188
HUGO BOSS Holdings Pty. Ltd.	–	–	1,579	1,003	4,992	3,470
HUGO BOSS, Inc.	–	–	0	(37)	496	426

[1] Subconsolidated financial statement.
[2] External sales; sales with Group companies are eliminated.
[3] Sales are not included in the consolidated financial statement due to equity consolidation.
[4] Net income 1999 and 1998 before loss transfer from Holy's Exclusive Herrenmoden GmbH (profit and loss transfer agreement).
Net income 1998 includes 41,398 thousand DM tax-free profit generated by restructuring measures.
[5] Net income 1999 and 1998 before loss transfer to HUGO BOSS AG (profit and loss transfer agreement).
[6] Net income includes dividend income of 5,124 thousand DEM in 1999 and 46,937 thousand DEM in 1998.

Accounting and Valuation Principles, Currency Conversion

Accounting and Valuation Principles

Assets and liabilities included in the consolidated financial statements according to Section 300 (2) of the (German) Commercial Code were consistently valued on the basis of the valuation methods applied in the financial statements of HUGO BOSS AG. In particular, valuation options permitted by the Commercial Code were exercised in the consolidated financial statements in the same manner as in the financial statements of the parent company.

For one associated company the valuation of assets and liabilities was not adjusted for consolidation purposes due to insignificance.

Except for the capitalization of pre-operating and business expansion expenses, the disclosure and valuation methods applied last year have not undergone any changes.

Pursuant to Section 269 of the (German) Commercial Code, pre-operating and business expansion expenses of 7,788 thousand DEM incurred for the creation of the women's collection and the related business organization were capitalized in the consolidated balance sheet. Corresponding income is shown in the consolidated statement of income as capitalized pre-operating and business expansion expenses. These expenses will be amortized using the straight-line method over a period of four years commencing at completion of the setup phase. No amortization was shown in the 1999 financial statements.

Intangible assets acquired were capitalized at the cost of acquisition and amortized using the straight-line method.

Tangible assets were valued at the cost of acquisition or production reduced by regular depreciation.

Buildings were depreciated on the basis of useful lives of 25 to 50 years. Technical equipment and machines have useful lives of 5 to 10 years; for other equipment, factory and office equipment, the useful lives were assumed between 2 and 10 years. The declining balance method with a transition to the straight-line method of depreciation was applied for tangible fixed assets, where consistent with tax directives.

Financial investments were valued at the cost of acquisition or the lower value applicable. In the consolidated financial statements, participating interests in associated companies were valued using the equity method of accounting.

Inventories were valued at the cost of acquisition or production. Cost of production included direct costs of materials, manufacturing costs and special costs of production. Perceivable risks arising from low inventory turnover and reduced utilization were covered by appropriate write-downs.

All apparent individual risks associated with the receivables and other assets were taken into account by suitable write-downs. The general credit risks were adequately covered by a lump-sum bad debt allowance.

Prepaid expenses include payments made before the balance sheet date for a certain period after this date and, in the consolidated financial statements, the credits balance for deferred taxes resulting from the consolidation. Pursuant to the option of Section 274 (2) of the Commercial Code, the deferred taxes were not capitalized when the individual financial statements were adjusted to comply with the uniform Group valuation principles.

Accruals for pensions at HUGO BOSS AG have been fully valued on an ongoing basis according to actuarial principles and assuming an interest rate of 4 percent. For the subsidiaries, accruals for pensions have been valued in accordance with local accounting principles.

The tax accruals consist mainly of the anticipated final tax payments for the current fiscal year. The corporation income tax was calculated based on the proposal for the appropriation of profits.

The other accruals cover all ascertainable risks and contingent liabilities. Costs of maintenance and repair not effected were accrued according to Section 249 (1) Clause 3 of the Commercial Code. Apart from this, certain expenses as stipulated by Section 249 (2) of the Commercial Code were accrued.

For valuation purposes, exchange contracts were combined with the underlying business transaction. Thus the results of such contracts entered into to cover currency risks are not shown until their maturity.

Liabilities were valued at their repayment amounts.

The contingent liabilities reflect the obligations existing at the balance sheet date.

The financial statements of the HUGO BOSS AG were drawn up showing partial appropriation of net income. The consolidated financial statements do not, however, reflect the appropriation of the consolidated net income.

Currency Conversion

For consolidation purposes, all items in the balance sheets of the foreign subsidiaries were converted at the rate of exchange effective at the balance sheet date. The items in the statement of income were converted using the weighted average exchange rates of the year. Differences resulting from the application of varying exchange rates were offset against the revenue reserves and therefore did not affect net income.

Depending on their nature, the remaining differences resulting from the conversion of foreign currencies were partially reflected in shareholders' equity and partially included in income.

Country	Currency	Average Rate		Current Rate	
		1999	1998	1999	1998
Australia	AUD	1.1852	1.1106	1.2733	1.0240
Belgium	BRC	0.9944	1.5189	1.0848	1.3734
France	FRF	29.8164	29.8291	29.8164	29.8180
Great Britain	GBP	2.9698	2.9145	3.1535	2.7980
Hong Kong	HKD	0.2371	0.2274	0.2507	0.2160
Italy	ITL	1.0101	1.0132	1.0101	1.0100
Japan	JPY	1.6213	1.3491	1.9079	1.4505
Canada	CAD	1.2375	1.1893	1.3420	1.0770
Mexico	MXN	0.1984	0.2054	0.2054	0.2070
Netherlands	NLG	88.7517	88.7155	88.7517	88.7530
Switzerland	CHF	122.2144	121.4198	121.8813	122.2000
Spain	ESP	1.1755	1.1779	1.1755	1.1755
USA	USD	1.8358	1.7597	1.9504	1.6730

Evaluation of Finances

Funds Flow Statement

	1999 DEM thous.	1998 DEM thous.
Net income for the year	110,463	97,346
Depreciation of fixed assets	37,917	26,016
Change in pension accruals	2,182	1,472
Capitalization of pre-operating and business expansion expenses	–7,788	–
Cash flow	142,774	124,834
Change in inventories	9,942	–30,745
Change in receivables and other assets[1]	–20,653	–35,760
Change in trade payables and other liabilities[2]	–7,945	15,319
Change in tax and other accruals	27,275	–18,435
Cash flow from operating activities	**151,393**	**55,213**
Disposal of fixed assets	28,428	1,572
Gross investments in fixed assets	–91,745	–58,158
Currency adjustments	–12,178	4,463
Cash flow from investment activities	**–75,495**	**–52,123**
Dividend preceding year	–48,471	–40,791
Currency exchange and other equity changes	11,014	–6,623
Change in financial liabilities	–24,074	22,740
Cash flow from external financing activities	**–61,531**	**–24,674**
Change in liquid funds	**14,367**	**–21,584**
Liquid funds at the beginning of the period	–92,165	–113,749
Liquid funds at the end of the period	**106,532**	**92,165**

[1] Payments on account for inventories, other assets, prepaid expenses.
[2] Other non-interest bearing liabilities, deferred income.

Segmental Reporting

Section 297 (1) Clause 2 of the (German) Commercial Code requires the HUGO BOSS Group, as a public company, to show its financial information by segment for the first time in the notes to its 1999 financial statements.

A segmentation of our current business activities does not appear appropriate, as they are generally homogenous in nature. Beginning with the 1999 business year, we will contrast our existing activities with the evolving BOSS women's segment, thus providing an overview of developments in both areas. We will also be reporting financial information by geographical segments.

In accordance with their significance for the HUGO BOSS Group, our business segments as thus defined are presented and analyzed in the Group Management Report. In doing so, we have complied with the draft of the German Accounting Standard No. 3 (E-DRS 3) on segmental reporting.

For the sake of clarity and brevity, we have refrained from repeating the segmental reporting section in the notes to the financial statements and instead refer readers to the Group Management Report, where segment developments are discussed.

Notes to the Balance Sheet

(1) Pre-operating and Business Expansion Expenses

The development of pre-operating and business expansion expenses capitalized during the 1999 fiscal year pursuant to Section 269 of the (German) Commercial Code is shown on pages 106-107.

This item refers exclusively to set-up costs for the BOSS women's collection and related organization as incurred by HUGO BOSS S. p. A. during the year under review.
These expenses will be amortized using the straight-line method over a period of four years commencing at completion of the set-up phase. No amortization was shown in the 1999 financial statements.

(2) Fixed Assets

The development of fixed assets as defined by Section 268 (2) of the Commercial Code during the 1999 fiscal year is shown on pages 106-107.

Intangible assets are comprised largely of software and trademarks. The year's additions to intangible assets are due primarily to the acquisition of BOSS trademarks from a licensee for 18.0 million DEM. The trademarks will be written off over a ten-year period using the straight-line method.

The additions to tangible assets (63.0 million DEM) for the Group are attributable mainly to the set-up of the Group's own production facility in Turkey by HUGO BOSS Textile Industry Ltd. and to the acquisition of a building as well as fixtures and furniture by HUGO BOSS S. p. A. in connection with the creation of the BOSS women's collection. Substantial funds were also devoted to IT, logistics, production and sales activities. Our sales-related investments refer primarily to the new BOSS Shop in Milan and Holy's Shop in Munich; the former was completely new, while the latter was relocated.

(3) Financial Assets

The only share in associated companies shown is that in HUGO BOSS Australia Pty. Ltd., Australia. The increase is the result of appreciation in conjunction with equity consolidation and currency conversion.

In the previous year, other loans mainly comprised a loan extended to a licensee. This loan was fully repaid in 1999.

Composition of the financial assets:

	1999 DEM thous.	**1998** DEM thous.
Shares in affiliated companies	25	25
Participating interests in associated companies	4,992	3,470
Other investments	47	–
Other loans	351	19,045
thereof due after more than one year	(351)	(19,045)
	5,415	**22,540**

(4) Receivables and Other Assets

Classified according to remaining terms

(prior year's figures in brackets)

	With a remaining term up to 1 year DEM thous.	from 1 to 5 years DEM thous.	of more than 5 years DEM thous.	**Total** DEM thous.
Trade receivables	145,000 (133,236)	234 (376)	– (–)	145,234 (133,612)
Receivables from associated companies	1,697 (1,239)	– (–)	– (–)	1,697 (1,239)
Other assets	34,238 (37,781)	7,911 (1,395)	4,480 (3,522)	46,629 (42,698)
	180,935 **(172,256)**	**8,145** **(1,771)**	**4,480** **(3,522)**	**193,560** **(177,549)**

Trade receivables increased during the year under review mainly due to higher sales.

Receivables from associated companies are the result of trade in goods and services.

Other assets refer primarily to tax receivables, advances to and receivables from suppliers and other business partners, guarantee deposits, receivables from credit card institutions as well as loans granted to business partners.

Notes to the Balance Sheet

(5) Liquid Assets

	1999 DEM thous.	1998 DEM thous.
Checks/ec-Cash	12,100	308
Cash in hand	6,166	3,613
Postal giro balances, balances with banks and factoring companies	88,266	88,244
	106,532	**92,165**

Liquid assets mainly comprise credit with banks and credit balances with factoring companies from secured receivables for delivered merchandise.

(6) Prepaid Expenses

	1999 DEM thous.	1998 DEM thous.
Deferred taxes according to Section 306 of the (German) Commercial Code	3,662	2,244
Other	5,219	4,147
	8,881	**6,391**

(7) Subscribed Capital

As per resolutions of the HUGO BOSS AG general Shareholders Meeting and the separate meeting of its preferred stockholders held on May 17, 1999, no-par-value shares were introduced and the subscribed capital of HUGO BOSS AG was converted from 32,000,000.00 DEM to 16,361,340.20 Euro.
In addition, the Shareholders Meeting held on May 17, 1999 resolved to redistribute the subscribed capital by way of a 1 : 11 share split.
Finally, the Shareholders Meeting on May 17, 1999 also resolved that the subscribed capital of HUGO BOSS AG was to be increased from retained earnings by transferring capital reserve funds. The increase of 18,838,659.80 EUR led to a new total of 35,200,000.00 Euro.
As a result, the subscribed capital per share was computed at 5.00 Euro.

At December 31, 1999, the subscribed capital of HUGO BOSS AG amounted to 35,200,000.00 Euro, which corresponds to 68,845,216.00 DEM and is divided as follows:

	EUR thousand	DEM thousand
Common stock issued to bearer 3,586,000 shares	17,930	35,068
Non-voting preferred stock issued to bearer 3,454,000 shares	17,270	33,777
	35,200	**68,845**

Based on further resolutions of the general Shareholders Meeting and the separate meeting of the preferred stockholders on May 17, 1999, the Management Board of HUGO BOSS AG is entitled, given the approval of the Supervisory Board, to increase the subscribed capital of the company by authorized capital of 3,520,000 Euro until May 17, 2004.
The authorized capital can be used to issue common and preferred shares on one or more occasions.

(8) Capital Surplus

This caption consists of the capital surplus according to Section 272 (2) No. 1 of the (German) Commercial Code.

In a resolution of the Shareholders Meeting of HUGO BOSS AG on May 17, 1999, by way of increasing the capital from retained earnings, capital reserves of 36,845 thousand DEM were transformed to subscribed capital.

As a result, the capital surplus developed during the year under review as follows:

	DEM thous.
Balance on January 1, 1999	37,626
Transformed to subscribed capital	–36,845
Balance on December 31, 1999	**781**

(9) Retained Earnings

	1999 DEM thous.	**1998** DEM thous.
Legal reserves	3,000	3,000
Other revenue reserves	252,681	192,925
	255,681	**195,925**

Accordingly, the other revenue reserves developed as follows during 1999:

	DEM thous.
Balance on January 1, 1999	192,925
Consolidated net income for the 1998 financial year	97,346
Effects of currency conversion for the 1999 financial year	10,881
Dividend distribution at HUGO BOSS AG for the 1998 financial year, paid out in 1999	–48,471
Balance on December 31, 1999	**252,681**

Notes to the Balance Sheet

(10) Difference Arising from Capital Consolidation

	1999 DEM thous.	1998 DEM thous.
Holy's Exclusive Herrenmoden GmbH, Stuttgart	168	168
HUGO BOSS France SARL, Paris	82	82
	250	**250**

The credit differences incurred in past years by the first consolidation of the subsidiaries did not change during the 1999 fiscal year.

(11) Other Accruals

	1999 DEM thous.	1998 DEM thous.
Estimated liabilities	87,182	70,231
Deferred maintenance according to Section 249 (1) Clause 1 of the (German) Commercial Code	175	708
Other accruals for expenses	901	1,996
	88,258	**72,935**

Accruals for estimated liabilities consist mainly of sales agents' commissions and termination payments, outstanding invoices for goods and services, litigation cost provisions to defend our trademarks, as well as employees' and directors' bonuses. In addition, this position includes accruals for pending claims for damages, liabilities for returned merchandise, vacation provisions and possible losses from pending business transactions.

(12) Liabilities

Classified according to remaining terms

(previous year's figures in brackets)

	With a remaining term			Total
	up to 1 year DEM thous.	from 1 to 5 years DEM thous.	of more than 5 years DEM thous.	DEM thous.
Liabilities to banks	19,820 (40,678)	– (–)	– (–)	19,820 (40,678)
Trade payables	49,535 (65,450)	47 (192)	– (–)	49,582 (65,642)
Liabilities to affiliated companies	3,926 (2,803)	– (–)	– (–)	3,926 (2,803)
Other liabilities	31,332 (25,046)	14,179 (16,830)	6,448 (6,277)	51,959 (48,153)
	104,613 **(133,977)**	**14,226** **(17,022)**	**6,448** **(6,277)**	**125,287** **(157,276)**

Other liabilities consist mainly of an interest-bearing loan from a business partner (15.0 million DEM), obligations from wages and salaries (3.0 million DEM), liabilities from taxes (4.7 million DEM) and for social security (11.0 million DEM). Liabilities to the HUGO BOSS support fund (6.4 million DEM) are included in liabilities for social security. The legal retention of title commonly used in trade applies to the liabilities from the delivery of raw materials, supplies and purchased merchandise.
The sum of 11 thousand DEM of the liabilities to banks is secured by mortgages.

Breakdown of other liabilities:

	1999 DEM thous.	1998 DEM thous.
Other liabilities thereof:	51,959	48,153
from taxes	(4,694)	(4,810)
for social security	(10,982)	(10,124)

Notes to the Balance Sheet

(13) Contingent Liabilities

	1999	1998
	DEM thous.	DEM thous.
Liabilities from the negotiation and transfer of bills	1,027	2,091
Contingent liabilities from the provision of collateral for third-party liabilities	12,778	8,538
thereof secured by mortgages	(4,660)	(4,750)
	13,805	**10,629**

The increase in contingent liabilities from the provision of collateral for third-party liabilities refers mainly to the registration of liable capital in conjunction with HUGO BOSS AG becoming a limited partner in BIL Leasing Verwaltungs-GmbH & Co. 869 KG.

Notes to the Statement of Income

(14) Sales

	1999 DEM thous.	1998 DEM thous.
Classified according to brands		
BOSS[1]	1,366,800	1,243,545
HUGO	86,476	76,067
BALDESSARINI	19,270	17,433
	1,472,546	**1,337,045**
Classified by geographical markets		
Germany	500,863	472,872
Rest of Europe	565,236	500,244
America	252,652	228,050
Other regions	91,406	78,742
Royalties	62,389	57,137
	1,472,546	**1,337,045**

[1] Including sales of other brands totaling 9,440 thousand DEM (1998: 8,928 thousand DEM).

(15) Capitalized Pre-operating and Business Expansion Expenses

This item is composed exclusively of start-up costs at HUGO BOSS S. p. A. resulting from the creation of the BOSS women's collection and the set-up of the related business organization. These costs were capitalized in the consolidated balance sheet as pre-operating and business expansion expenses.

(16) Other Operating Income

	1999 DEM thous.	1998 DEM thous.
Income on marketing expenses charged	22,641	21,056
Income on other expenses charged	8,851	5,567
Gains on currency translation	12,252	13,714
Other operating income	14,354	8,256
Non-recurring income	6,120	3,964
	64,218	**52,557**

The income on marketing expenses charged is largely made up of charges from BOSS shop equipment and marketing materials, as well as from advertising and sponsoring activities.

Other operating income refers mainly to effects from the consolidation of intercompany balances and to gains on the sale of fixed assets.

The non-recurring income is primarily comprised of reversed accruals and out-of-period reimbursements.

Notes to the Statement of Income

(17) Personnel Expenses

	1999 DEM thous.	1998 DEM thous.
Personnel expenses	196,614	179,292
thereof for pensions	(1,834)	(2,195)
non-recurring amounts included	(5,071)	(4,256)

The non-recurring amounts include start-up costs for the BOSS women's collection (3,068 thousand DEM) that are balanced by a corresponding amount of capitalized pre-operating expenses. This item also includes payments for the termination of employment contracts as well as severance pay.

Number of employees on the annual average:

	1999	1998
Industrial employees	1,384	1,214
Commercial and administrative employees	1,197	981
	2,581	**2,195**

(18) Depreciation of Intangible Fixed Assets and Tangible Assets

	1999 DEM thous.	1998 DEM thous.
Depreciation	34,016	26,016
thereof:		
depreciation on the basis of fiscal regulations only (Section 6 b EStG)	(1,494)	(751)

The depreciation effected for the year under review in accordance with fiscal regulations results from the transfer of book gains resulting from the sale of fixed assets to a replacement asset (pursuant to Section 6b of the German Income Tax Law/EStG).

(19) Other Operating Expenses

	1999	1998
	DEM thous.	DEM thous.
Marketing expenses (gross)	128,060	115,881
Other sales expenses	101,667	100,004
General and administrative costs	33,852	34,952
Operating expenses	28,653	20,540
Losses on currency translation	21,336	12,282
Other operating expenses	37,917	41,098
Non-recurring expenses	17,369	6,229
	368,854	**330,986**

The marketing expenses are comprised mainly of costs incurred for advertising, fairs, events, BOSS Shops and sponsoring activities.
The key components of other operating expenses are commission, duties, freight costs – i.e. variable sales-related costs – and costs for producing the collections.
General and administrative costs consist largely of legal and consulting fees, IT operating costs, factoring fees and rents.
The increase in operating expenses is mainly due to the outsourcing of logistics services previously rendered internally. In addition, operating expenses are also comprised of rent, maintenance expenses and insurance premiums.
The other operating expenses are largely allowances for doubtful accounts, exchange hedging transaction costs, losses from the retirement of fixed assets as well as additions to accruals for possible losses from pending business transactions, and for other risks.
The non-recurring expenses are attributable primarily to outlays in conjunction with the new BOSS women's collection and to accruals for agent compensation claims, restructuring activities in the logistics sector, and trademark disputes.

We refined our allocation structure for other operating expenses during the year under review. To facilitate a comparison, we have adjusted the previous year's figures accordingly.

(20) Write-offs of Financial Assets and Marketable Securities

This caption refers exclusively to write-offs for other participating interests in a licensing partner which AMBRA, Inc. obtained in 1999 in the course of restructuring a licensing agreement.
The write-off proved necessary because the licensing partner is in difficult commercial and financial straits.

(21) Minority Share of Result

The minority share of result reflects a 30 % shareholding in HUGO BOSS do Brasil Ltda. corresponding to a 30 % share in its net income.

Additional Information

Other Financial Obligations according to Section 285 No. 3 of the Commercial Code

	1999 DEM thous.
Due 2000	40,066
Due 2001–2004	88,976
Due after 2004 (annually)	19,192
	148,234

Other financial obligations mainly include obligations from rental, leasing and sponsoring contracts.

Total Remuneration of the Supervisory Board and Management Board

The Supervisory Board received total remuneration of 421 thousand DEM for its services.

The total remuneration of the Management Board amounted to 6,728 thousand DEM.

A former member of the HUGO BOSS AG Management Board received retirement pay in the amount of 39 thousand DEM. Accruals for pension obligations for former members of the Management Board decreased to 5,068 thousand DEM. There were no other financial obligations arising from subsidiaries.

Further Information on Supervisory Board Members

The following members of our Supervisory Board are also members of advisory bodies at the following companies:[1]

Prof. Dr. Johannes Semler	*ADVANTA AG*[3]	*Frankfurt/Main*
	Hauck & Aufhäuser Privatbankiers KGaA[2]	*Frankfurt/Main*
Dr. Pietro Marzotto	*FIN. I. INVEST S. p. A.*[2]	*Vincenza, Italy*
	Industrie Zignago S. Margherita S. p. A.	*Fossalta di Portogruaro, Italy*
	RAS – Riunion Adriatica di Sicurta S. p. A.	*Milan, Italy*
	Vincenzo Zucchi S. p. A.	*Milan, Italy*
	Mascioni S. p. A.	*Milan, Italy*
	Databank S. p. A.	*Milan, Italy*
	Marzotto S. p. A.	*Valdagno, Italy*
	Marzotto GmbH[2]	*Frankfurt/Main*
	Linificio e Canapificio S. p. A.	*Fara Gera d'Adda, Italy*
Dr. Sergio Erede	*Parmalat Finanziaria S. p. A.*	*Milan, Italy*
	Gruppo GS S. p. A.	*Naples, Italy*
	Autogrill S. p. A.	*Milan, Italy*
	Editoriale L'Espresso S. p. A.	*Rome, Italy*
	Interpump Group S. p. A.[2]	*S. Ilario d'Enza, Italy*
	Unisys Italia S. p. A.	*Milan, Italy*
	Databank S. p. A.	*Milan, Italy*
	Società Italo Britannica L. Manetti – H. Roberts S. p. A.	*Florence, Italy*
	Rivarossi S. p. A.	*Como, Italy*
	Manetti & Roberts Sanitas S. p. A.	*Florence, Italy*
	Carraro S. p. A.	*Campodarsego, Italy*
	Seat Pagine Gialle S. p. A.	*Turin, Italy*
	Olivetti S. p. A.	*Ivrea, Italy*
	Telecom Italia S. p. A.	*Turin, Italy*
	Exportex S. p. A.	*Milan, Italy*
	Manuli Rubbers Industries S. p. A.	*Campolungo, Italy*
	Marzotto S. p. A.[3]	*Valdagno, Italy*
Jean F. de Jaegher	*Vincenzo Zucchi S. p. A.*	*Milan, Italy*
	Mascioni S. p. A.	*Milan, Italy*
	Marzotto S. p. A.[2]	*Valdagno, Italy*
	Marzotto GmbH[3]	*Frankfurt/Main*
	Linificio e Canapificio S. p. A.[2]	*Fara Gera d'Adda, Italy*
Dr. Norbert Käsbeck	*AMB Aachener und Münchener Beteiligungs AG*	*Aachen*
	Friatec AG[3]	*Mannheim*
	MAN AG	*München*
	SÜBA BAU AG	*Mannheim*
	HAWESKO Holding AG	*Hamburg*
	Salamander AG	*Kornwestheim*
	comdirect bank AG[2]	*Quickborn*
	Commerz Grundbesitz-Investmentgesellschaft mbH	*Wiesbaden*
	Commerz Finanz-Management GmbH[2]	*Frankfurt/Main*
	Commerz NetBusiness AG[2]	*Frankfurt/Main*

[1] The members not mentioned are not on advisory bodies of any other companies.
[2] Holding the post of Chairman.
[3] Holding the post of Deputy Chairman.

Analysis of Pre-operating and Business Expansion Expenses and Fixed Assets (in DEM thousand)

	Acquisition or manufacturing costs			
	Jan.1,1999	Additions	Disposals	Regrouped
A. Pre-operating and Business Expansion Expenses	**0**	**7,788**	**0**	**0**
B. Fixed Assets				
I. Intangible Assets				
1. Industrial and similar rights	32,997	24,002	623	0
	32,997	**24,002**	**623**	**0**
II. Tangible Assets				
1. Land and buildings including buildings on third-party land	69,715	20,115	755	2,235
2. Technical equipment and machinery	35,461	3,982	1,313	59
3. Other equipment, factory and office equipment	129,440	35,600	8,870	193
4. Prepayments made and construction in progress	3,091	3,294	2,452	–2,487
	237,707	**62,991**	**13,390**	**0**
III. Financial Assets				
1. Shares in affiliated companies	25	0	0	0
2. Participating interest in associated companies	3,470	677	0	0
3. Other investments	0	3,948	0	0
4. Other loans	19,045	127	21,941	0
	22,540	**4,752**	**21,941**	**0**
	293,244	**91,745**	**35,954**	**0**

[1] The currency adjustment results from application of the closing rate method.

		Depreciation		Net book values	
Currency adjustments[1]	Dec.31,1999	Fiscal year	Accumulated	Jan.1,1999	Dec.31,1999
0	**7,788**	**0**	**0**	**0**	**7,788**
3,957	60,333	6,534	16,675	23,674	43,658
3,957	**60,333**	**6,534**	**16,675**	**23,674**	**43,658**
3,504	94,814	4,346	31,469	44,107	63,345
1,881	40,070	4,307	29,786	10,045	10,284
3,816	160,179	18,829	87,669	55,623	72,510
0	1,446	0	0	3,091	1,446
9,201	**296,509**	**27,482**	**148,924**	**112,866**	**147,585**
0	25	0	0	25	25
845	4,992	0	0	3,470	4,992
0	3,948	3,901	3,901	0	47
3,120	351	0	0	19,045	351
3,965	**9,316**	**3,901**	**3,901**	**22,540**	**5,415**
17,123	**366,158**	**37,917**	**169,500**	**159,080**	**196,658**

General Information

Our company's performance is best reflected in the Group financial statements. Like many other companies, we have therefore opted for the more comprehensive consolidated presentation and refrained from including the figures of the HUGO BOSS AG financial statements in this report.
We would, however, be more than happy to send you the annual report for HUGO BOSS AG as well. To receive your copy, please contact:

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Phone: +49 (0) 7123-94-0

The financial statements of HUGO BOSS Aktiengesellschaft will be published in the German Federal Bulletin (Bundesanzeiger) and deposited with the Commercial Registry of the Reutlingen Local Court.

Metzingen, February 21, 2000

HUGO BOSS Aktiengesellschaft
The Management Board

Werner Baldessarini
Dr. Bruno E. Sälzer
Dr. Werner Lackas
Jörg-Viggo Müller
Massimo Suppancig

Financial Calendar

Feb. 18, 2000	*Publication of the provisional figures for the 1999 business year*
April 3, 2000	*Balance Sheet Press Conference and DVFA* Analysts Conference*
May 4, 2000	*Publication of the First Quarter Report 2000*
May 22, 2000	*Shareholders Meeting in Stuttgart*
Aug. 7, 2000	*Publication of the Interim Report on the first half of 2000*
Sep. 5, 2000	*DVFA* Analysts Conference*
Nov. 6, 2000	*Publication of the Third Quarter Report 2000*

*German Association of Financial Analysts and Investment Consultants

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