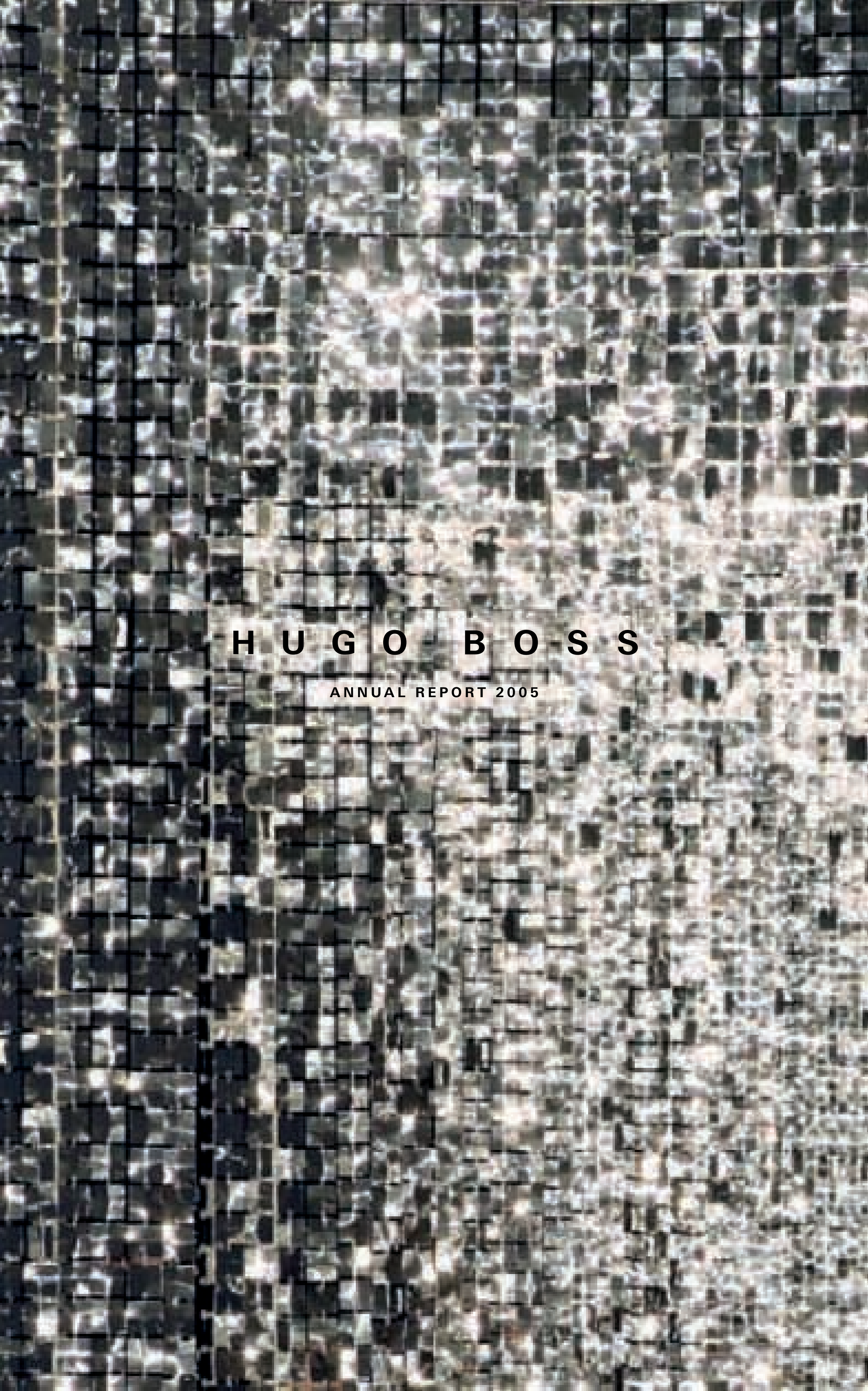

HUGO BOSS

ANNUAL REPORT 2005

HUGO BOSS

ANNUAL REPORT 2005

HUGO BOSS TEN-YEAR SUMMARY

TEN-YEAR SUMMARY

in EUR million	2005 IFRS	2004 IFRS	2003 IFRS	2002 IFRS
Earnings Position				
Sales	1,309.4	1,168.4	1,054.1	1,093.4
Operating result [1]	162.9	136.7	118.8	115.8
Net income	108.2	88.2	82.4	74.7
adjusted [2]	–	–	–	–
Personnel expenses [1]	238.2	198.3	170.4	158.2
Employees [3]	7,584	6,942	5,110	4,600
Financial Position and Dividends				
Cash flow	153.9	119.9	111.9	105.1
adjusted [2]	–	–	–	–
Free cash flow before dividends	106.9	40.1	60.5	61.0
Capital expenditure	76.6	57.3	46.3	68.4
Depreciation/amortization [4]	41.3	37.4	32.9	32.2
Dividends	70.2 [9]	59.2	55.2	53.1
Special dividends	–	–	–	–
Asset and Liability Structure				
Total assets	854.0	810.4	754.5	760.4
Shareholders' equity [5]	467.8	415.6	399.5	385.2
Current assets	493.4	478.5	496.7	498.5
Non-current assets [6]	360.6	331.9	257.9	261.9
Key Figures				
Foreign sales in % [7]	75.7	75.0	75.2	74.8
EBIT margin in %	12.4	11.6	11.3	10.6
Return on sales after taxes in %	8.3	7.5	7.8	6.8
adjusted [2]	–	–	–	–
Return on equity in % [8]	23.8	21.3	20.4	18.9
adjusted [2]	–	–	–	–
Equity-to-assets ratio in %	54.8	51.3	52.9	50.6
Shares (in EUR)				
Dividends per share				
common stock	1.00 [9]	0.84	0.78	0.75
preferred stock	1.01 [9]	0.85	0.79	0.76
Special dividends per share				
common stock	–	–	–	–
preferred stock	–	–	–	–
Earnings per share [10]	–	–	–	–
common stock	1.54	1.24	1.16	1.05
preferred stock	1.55	1.26	1.18	1.07
Cash flow per share	2.19	1.70	1.59	1.49
adjusted [2]	–	–	–	–
Common stock [11]				
highest price	32.60	23.81	18.00	26.10
lowest price	21.00	16.05	8.10	7.60
Preferred stock [11]				
highest price	31.50	24.43	17.93	29.45
lowest price	21.10	15.85	8.48	8.20

1 Since 2004: Including non-recurring items.
2 Figures adjusted for the tax effect of special dividends.
3 Average for the year acc. to HGB; capacities on the reporting date acc. to IFRS.
4 Until 2004: Including non-recurring write-offs.
5 Incl. 50% of special untaxed reserves.
6 Until 2001: Fixed assets.

2001 IFRS	2001 HGB	2000 HGB	1999 HGB	1998 HGB	1997 HGB	1996 HGB
1,094.7	1,094.7	923.4	752.9	683.6	581.0	508.9
167.4	162.0	163.5	109.8	96.1	89.7	66.4
117.6	106.6	109.0	56.5	49.7	42.1	38.9
107.7	–	99.1	–	–	–	33.2
149.3	149.7	123.1	100.5	91.7	80.4	76.3
4,234	4,240	3,394	2,581	2,195	2,055	2,147
150.6	141.9	125.7	73.0	63.8	57.6	49.6
140.7	–	115.8	–	–	–	43.9
(46.8)[12]	(26.3)[12]	17.8	33.5	(2.6)[12]	18.8	22.5
95.6	73.7	36.6	46.9	29.8	43.9	17.7
29.4	30.6	22.8	19.4	13.3	12.0	8.9
53.1	53.1	49.5	28.4	24.8	20.9	15.0
–	–	43.9	–	–	–	18.7
756.8	661.7	501.2	369.5	333.5	297.2	248.6
375.3	320.9	305.4	223.0	185.7	160.1	146.7
528.5	485.1	370.2	260.4	248.8	225.5	207.4
199.8	159.5	115.8	100.6	81.3	68.0	37.8
72.9	71.6	69.5	63.6	61.7	63.5	64.0
15.3	14.8	17.7	14.6	14.1	15.4	13.1
10.7	9.7	11.8	7.5	7.3	7.2	7.6
9.8	–	10.7	–	–	–	6.5
30.9	33.2	41.3	27.6	28.8	27.4	29.0
28.3	–	37.5	–	–	–	25.3
49.6	48.5	60.9	60.4	55.7	53.9	59.0
0.75	0.75	0.70	0.40	0.35	0.29	0.21
0.76	0.76	0.71	0.41	0.36	0.30	0.22
–	–	0.62	–	–	–	0.27
–	–	0.62	–	–	–	0.27
–	1.52	1.33	0.85	0.71	0.66	0.50
1.52[2]	–	–	–	–	–	–
1.54[2]	–	–	–	–	–	–
2.14	2.02	1.79	1.04	0.91	0.82	0.71
2.00	–	1.65	–	–	–	0.62
33.80	33.80	29.50	12.70	18.45	11.16	9.18
13.70	13.70	10.20	9.26	10.23	8.13	5.58
39.20	39.20	38.50	14.30	19.99	11.95	9.30
15.10	15.10	10.56	9.53	10.97	8.37	5.59

7 Export share incl. foreign royalties income.
8 Net income in relation to the average shareholders' equity.
9 2005: Recommendation for dividend payment.
10 2005–2001: Based on IFRS; prior to 2001: based on DVFA/SG ("Deutsche Vereinigung für Finanzanalyse und Anlageberatung/Schmalenbachgesellschaft").
11 Frankfurt floor.
12 Negative amounts are shown in brackets.

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TO OUR SHAREHOLDERS

PAGES 004 TO 063

LETTER TO SHAREHOLDERS

FROM BRUNO SÄLZER

LADIES AND GENTLEMEN,

HUGO BOSS set new records in 2005. Sales grew by 12% to EUR 1.3 billion, net income rose by 23% to EUR 108 million, and free cash flow before dividends increased to EUR 107 million.

These results were achieved against the backdrop of a slight increase in the world fashion market of 3% and a weak German market which, though showing some signs of improvement, still declined by 1%. In Germany, where the Group generates 24% of total sales, HUGO BOSS achieved growth of 9% – a convincing demonstration of the strength of the HUGO BOSS brands.

In the year under review, we realigned both our strategy and our structure. Our primary goal has always been to strengthen our core competencies in products, market knowledge and business processes.

While HUGO BOSS is known for making an unmistakable, innovative fashion statement and offering outstanding value, our success also rests on an intimate knowledge of our customers and our markets, supplemented by our aspiration to be best-in-class in production and logistics.

The facts and figures for fiscal 2005 illustrate the Group’s successful development:

- Leisure and sportswear now comprise 38% of our sales. This figure illustrates that our core competence, which was originally in the realm of businesswear, has been successfully extended to the leisure area.

- Our BOSS Womenswear collections achieved sales of EUR 96 million in 2005 (up 38% from 2004). We are well on the way to becoming one of the largest international providers of women’s clothing with our core BOSS brand.

- BOSS Orange Womenswear was received enthusiastically by the fashion press following its launch in 2005. This step has allowed us to round out our offering in the fashion segment of high-end leisurewear by adding a women’s line in this segment.

- The high-end BOSS Selection collection achieved sales of EUR 21 million in its very first year. Satisfying the highest demands in tailoring and fit, fabrics and quality of workmanship, BOSS Selection is the ideal addition to our BOSS Menswear line.

- The trendy HUGO brand generated sales of EUR 125 million in 2005 (up 17% from 2004). HUGO represents a progressive and unconventional fashion approach that will make us a trendsetter in the fashion forward segment.

- Sales of shoes and leather accessories amounted to EUR 118 million (up 32% from 2004). Both product groups serve to sharpen the style and identity of all of our collections.

- Our directly operated stores (DOS) increased sales by 41% to EUR 138 million. These stores showcase the HUGO BOSS brand world and provide us with first-hand market knowledge through direct contact with consumers.

All of these areas are expected to achieve above-average growth again in 2006.

We are convinced that 2006 will be another successful year for HUGO BOSS, even if the global fashion market continues to grow at a subdued pace. We plan to continue increasing our market share in all key markets and for all product segments, setting new records in sales and earnings.

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

Regards

Bruno Sälzer
Chair of the Managing Board

SUPERVISORY AND MANAGING BOARDS

2005

SUPERVISORY BOARD

Dr. Giuseppe Vita, Milan, Italy	Supervisory Board, Chair
Antonio Simina, Metzingen, Germany	Tailor/Chairman of the Works Council HUGO BOSS AG, Metzingen, Germany, Deputy Chair, Employee Representative
Werner Baldessarini, Riederich, Germany	Supervisory Board, Member of the Supervisory Board until May 11, 2005
Gert Bauer, Reutlingen, Germany	First Authorized Representative German Metalworkers' Union (IG-Metall) of the administration cost center, Reutlingen/Tuebingen, Germany, Member of the Supervisory Board since June 21, 2005, Employee Representative
Philippe Bouckaert, London, Great Britain	Supervisory Board, Member of the Supervisory Board since May 11, 2005
Helmut Brust, Bad Urach, Germany	Director Merchandise Management HUGO BOSS AG, Metzingen, Germany, Member of the Supervisory Board since June 21, 2005, Employee Representative
Andrea Donà dalle Rose, Rome, Italy	Deputy Chairman of the Board of Directors Valentino Fashion Group S.p.A., Milan, Italy, Member of the Supervisory Board since May 11, 2005
Antonio Favrin, Portogruaro, Venice, Italy	Chairman of the Board of Directors Valentino Fashion Group S.p.A., Milan, Italy

Peter Haupt, Metzingen, Germany	Employee HUGO BOSS AG, Metzingen, Germany, Employee Representative
Jean F. de Jaegher, Brussels, Belgium	Supervisory Board, Member of the Supervisory Board until May 11, 2005
Roland Klett, Metzingen, Germany	Head of Flat Packed Goods HUGO BOSS AG, Metzingen, Germany, Employee Representative
Reinhold L. Mestwerdt, Kronberg, Germany	Managing Director Westdeutsche Spielbanken GmbH & Co. KG, Muenster, Germany, Member of the Supervisory Board since May 11, 2005
Michele Norsa, Milan, Italy	General Manager Valentino Fashion Group S. p. A., Milan, Italy, Member of the Supervisory Board until May 11, 2005
Rainer Otto, Langen, Germany	Secretary German Metalworkers' Union (IG-Metall) – Managing Board, Frankfurt, Germany, Member of the Supervisory Board since June 21, 2005, Employee Representative
Dario Federico Segre, Milan, Italy	Managing Director Finanziaria Canova S. p. A., Milan, Italy

MANAGING BOARD

Dr. Bruno Sälzer, Reutlingen	Chair of the Managing Board, Responsible for Sales and Marketing, Member of the Managing Board since November 1, 1995
Dr. Werner Lackas, Eningen unter Achalm	Responsible for Production and Logistics, Member of the Managing Board since October 1, 1997
André Maeder, Stuttgart	Responsible for Retail, Shoes and Leather Accessories, Member of the Managing Board since January 1, 2004
Jörg-Viggo Müller, Reutlingen	Responsible for Finance, Human Resources, Administration and IT, Director for Labor Relations – since May 11, 2005, Member of the Managing Board since April 1, 1993, retired on December 31, 2005
Lothar Reiff, Reutlingen	Responsible for Creation and Licensing, Member of the Managing Board since January 1, 2002, retired on October 31, 2005

Mr. Joachim Reinhardt was appointed a member of the Managing Board and Director for Labor Relations effective April 1, 2006. He will assume the responsibilities previously held by Mr. Müller.


Dr. Werner Lackas


Dr. Bruno Sälzer


Jörg-Viggo Müller


André Maeder

REPORT OF THE SUPERVISORY BOARD

LADIES AND GENTLEMEN,

Throughout fiscal 2005, the Supervisory Board fulfilled its duties as established under the law, the Company's articles of association and its bylaws. The Supervisory Board has given detailed attention to the situation of the Company, providing counsel to the Managing Board and monitoring the management of the Company based on regular, prompt and comprehensive reports. Moreover, the Supervisory Board was involved in all significant Company decisions.

A total of seven Supervisory Board meetings were held as planned in March, May, June, September and December of the year under review. In addition, a special session on strategy was also held. Between scheduled meetings, the Supervisory Board was kept informed in writing on projects and strategic decisions of special significance or high priority for the Company. All members regularly participated in all of the Supervisory Board meetings, with the exception of the March session.

In addition to current economic developments, the Supervisory Board was provided information on the Company's financial situation as well as its risk situation and risk management. Other issues discussed included the continued expansion of HUGO BOSS' own retail business and the conclusion of a new licensing agreement for eyewear.

The Managing Board provided the Supervisory Board with written reports detailing all significant business events in a timely and comprehensive manner in preparation for the Supervisory Board meetings. The Supervisory Board was involved in all fundamental decisions. Furthermore, the Chair of the Supervisory Board was in regular contact with the Managing Board beyond the scope of the meetings.

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

The declaration of compliance for 2005 concerning implementation of the Corporate Governance Code at HUGO BOSS AG was passed in December 2005 and immediately made available to the public on the Company's website.

At its meeting on December 6, 2005, the Supervisory Board reviewed the efficiency of its work by means of an extensive questionnaire and subsequent intense discussion. On the whole, the Supervisory Board arrived at a positive conclusion.

In line with the recommendations of the German Corporate Governance Code, the Supervisory Board and the Managing Board are advised and assisted by committees comprised of members of the Supervisory Board. The Supervisory Board of HUGO BOSS AG has formed a Working Committee, an Audit Committee, a Personnel Committee and a Mediation Committee according to section 27 paragraph 3 of the German Co-Determination Act (MitbestG) for this purpose.

The Working Committee met a total of three times during the year under review. These meetings focused on current corporate developments. The Audit Committee met four times, and the Personnel Committee three times.

The Supervisory Board was informed regularly of the outcome of the committee work.

The external auditor, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, appointed by the Annual Shareholders' Meeting of May 11, 2005 and commissioned by the Supervisory Board, reviewed the financial statements and management report along with the consolidated financial statements and Group management report for the fiscal year and issued an unqualified audit opinion. The auditor confirmed that no inaccuracies or violations of applicable law were noted in the financial statements, the consolidated financial statements or in the management report and Group management report. The Company maintains an effective risk management system in accordance with the law.

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

The Audit Committee and Supervisory Board have reviewed and dealt in detail with the annual financial statements, the consolidated financial statements, the management report and the Group management report as well as the proposal for the appropriation of profits. The respective committees were accorded sufficient time to study the relevant information. The financial statements of HUGO BOSS AG as prepared by the Managing Board were accepted at the Supervisory Board meeting of March 9, 2006 and the consolidated financial statements were deemed approved. The auditors who signed the opinion were present at the meetings of the Audit Committee and the Supervisory Board. They reported on the course of the audit and their key audit findings, and were available to answer questions.

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

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

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

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

HUGO BOSS AG's Managing Board announced in January 2005 that the number of employees at HUGO BOSS AG in Germany was continually more than 2,000. The composition of the Supervisory Board therefore changed in accordance with the provisions of the German Co-Determination Act (Mitbestimmungsgesetz).

In accordance with statutory provisions, the Supervisory Board now comprises twelve members: six shareholder representatives and six employee representatives.

After expiration of the terms of all HUGO BOSS AG Supervisory Board members, the Annual Shareholders' Meeting of May 11, 2005 elected Mr. Philippe Bouckaert, Mr. Andrea Donà dalle Rose, Mr. Antonio Favrin, Mr. Reinhold L. Mestwerdt, Mr. Dario Federico Segre and Dr. Giuseppe Vita as shareholder representatives to the Supervisory Board.

On June 21, 2005, HUGO BOSS AG employees elected Mr. Gert Bauer, Mr. Helmut Brust, Mr. Peter Haupt, Mr. Roland Klett, Mr. Rainer Otto and Mr. Antonio Simina to serve as employee representatives to the Supervisory Board.

The terms of office of the newly elected Supervisory Board members will expire at the conclusion of the Annual Shareholders' Meeting in 2010.

Dr. Giuseppe Vita was elected Chair of the Supervisory Board during the constitutive session of the new Supervisory Board.

Mr. Lothar Reiff and Mr. Jörg-Viggo Müller left the Managing Board effective October 31, 2005 and December 31, 2005, respectively. Mr. Joachim Reinhardt was appointed a member of the Managing Board and Director for Labor Relations effective April 1, 2006. He will assume the responsibilities previously held by Mr. Müller.

The Supervisory Board would like to thank former Managing Board members Lothar Reiff and Jörg-Viggo Müller for their many years at our Company as well as their high level of personal dedication.

We would also like to express our appreciation to the Managing Board, the employee representatives and the entire staff for their work in 2005.

Metzingen, March 9, 2006

The Supervisory Board

Dr. Giuseppe Vita
Chair of the Supervisory Board

CORPORATE GOVERNANCE

AT HUGO BOSS AG

APPLICATION OF THE GERMAN CORPORATE GOVERNANCE CODE AT HUGO BOSS AG

The following is the report of the Managing and Supervisory Boards on the application of the Corporate Governance Code at HUGO BOSS AG as stipulated in Section 3.10 of the German Corporate Governance Code (Corporate Governance Report):

Responsible and sound management for the benefit of shareholders, employees and customers is the fundamental principle of the HUGO BOSS corporate culture and a prerequisite for achieving corporate goals and sustained growth in company value. Effective implementation of corporate governance is an important element of the Group's corporate policy. The Managing Board and the Supervisory Board work closely together in the interest of the entire Company, using good corporate governance to ensure effective corporate management and control aimed at value creation. The Managing Board reports to the Supervisory Board and its committees on all topics of relevance to corporate management, the strategic development of the Group and changes in the risk position promptly and comprehensively on a regular basis. Accounting issues are discussed in depth at sessions of the Audit Committee. Personnel issues affecting the HUGO BOSS AG Managing Board are discussed by the Personnel Committee.

Care was taken in the selection of Supervisory Board members to ensure that the supervisory committees were composed of members who possess the requisite knowledge, skills and professional experience and who are independent within the meaning of the German Corporate Governance Code. None of the current Supervisory Board members has previously occupied a management position within the Company.

Mr. Werner Baldessarini, whose membership on the Supervisory Board ceased as of the conclusion of the Annual Shareholders' Meeting on May 11, 2005, will be available to the Company in an advisory capacity for the BALDESSARINI brand until the expiration of his contract. No other consulting contracts or other service agreements existed between the Company and members of the Supervisory Board during the year under review.

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

Responsible handling of entrepreneurial risk is also part of good Corporate Governance in the HUGO BOSS Group. A systematic risk identification process allows risks to be identified early on and the Group to manage its risk position accordingly. The risk management system of the Group is constantly being optimized and adapted to changing conditions. Please see the "Risk Report" section for details on this topic.

Good Corporate Governance for HUGO BOSS also involves directly providing all capital market participants with the same information. This enables private and institutional investors to stay abreast of current developments in the Group. For example, updated Investor Relations presentations are available for download from the Internet. In addition, all ad hoc announcements of HUGO BOSS AG are also published on its website.

Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the Managing and Supervisory Boards as well as employees with management responsibilities as defined in the Act are required to disclose the purchase or sale of HUGO BOSS AG securities. During the period under review from January 1 through December 31, 2005, seven securities transactions were reported to the Company and published on the website.

Members of the Supervisory Board hold a total of 0.27% of the shares issued by HUGO BOSS AG. Total holdings of members of the Managing Board are less than 0.01% of the shares issued by the Company.

Managing and Supervisory Board members who are members of executive or advisory bodies at other companies are shown on pages 186 to 189.

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

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

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

In order to implement the requirements of the Corporate Governance Code, the Annual Shareholders' Meeting created the framework necessary for applying the recommendations of the Code to a great extent by means of the modifications to the statutes resolved on May 27, 2003.

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

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

As of December 31, 2005, the share capital of HUGO BOSS AG was divided into 35,860,000 voting common shares and 34,540,000 non-voting preferred shares. This division exists for historical reasons. On December 19, 1985, only non-voting preferred shares were initially issued. In order to better respond to the differing preferences of market participants, common shares were floated in 1987; nominal capital remained unchanged.

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

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

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

- "Changing such performance targets or the comparison parameters retroactively shall be excluded. For extraordinary, unforeseen developments, a possibility of limitation (Cap) shall be agreed for by the Supervisory Board." (Section 4.2.3, Sentences 6 and 7 of the Code)

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

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

and

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

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

Total payments made to members of the Supervisory Board pursuant to IAS 24 are disclosed in the Notes to the Consolidated Financial Statements.

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

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

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

The German Securities Trading Act prescribes certain announcements and publications in the event that voting rights in the Company exceed or fall below certain levels and in the event of acquisition or sale of the shares or related acquisition or sale rights on the part of members of the Managing or Supervisory Boards. Legislators have weighed the interests of the capital markets against data protection rights. However, Section 6.6, Para. 2, Sentence 1 of the Code conflicts with this legislation. It is the opinion of the Managing and the Supervisory Boards that the legislative requirements pertaining to disclosure, together with the information under Section 6.6, Para. 2, Sentence 2 of the Code on shareholder information, are sufficient.

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

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

The Managing Board and Supervisory Board of HUGO BOSS AG herewith declare pursuant to section 161 AktG (German Stock Corporation Act) that the recommendations of the Government Commission “German Corporate Governance Code” as amended on June 2, 2005 – officially published in the electronic Federal Gazette on July 20, 2005 (with amendments of July 21, 2005) – since the Compliance Declaration of December 2004 have been and are generally complied with.

The recommendations based on section 2.1.2, 3.8 paragraph 2, 4.2.3 sentences 6 and 7, 4.2.4, 5.4.7 paragraph 3 and section 6.6 paragraph 2 sentence 1 have not been and are not complied with.

Metzingen, December 2005

HUGO BOSS – KEY SHARE DATA

	2005	2004
Number of shares	70,400,000	70,400,000
common shares	35,860,000	35,860,000
preferred shares	34,540,000	34,540,000
Earnings per share in EUR		
common share	1.54	1.24
preferred share	1.55	1.26
Dividend per share in EUR[1]		
common share	1.00	0.84
preferred share	1.01	0.85
Year-end (12/31) share price in EUR[2]		
common share	30.50	23.45
preferred share	29.70	24.50
Share price in EUR[2]		
common share		
high	32.85	23.85
low	21.00	15.90
preferred share		
high	31.54	24.50
low	21.14	15.75
Market capitalization in EUR million		
high	2,267	1,701
low	1,483	1,114
Price-earnings ratio[3]		
high	20	19
low	14	13
Dividend yield[3]		
high	3.2%	3.5%
low	4.8%	5.4%

1 2005: Recommendation for dividend payment.
2 Xetra.
3 Based on maximum/minimum prices of preferred shares.

TYPE OF SHARE: NO-PAR-VALUE SHARES

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

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

HUGO BOSS COMMON SHARE
PLUS THIRTY PERCENT

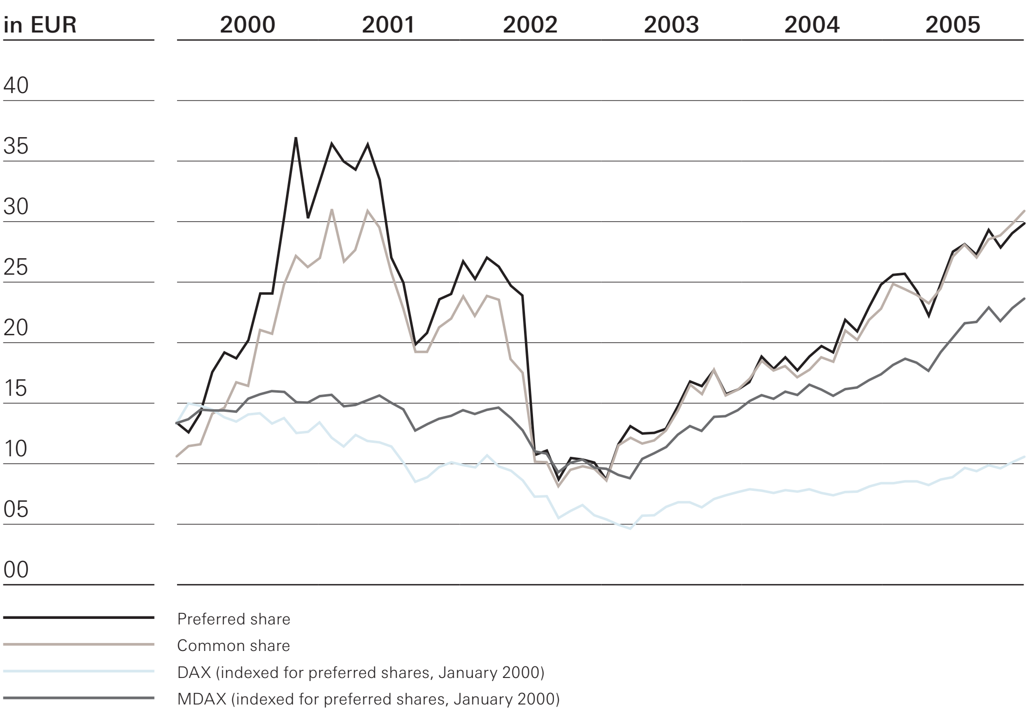
+30%

INVESTOR INFORMATION

SHARE PRICE PERFORMANCE IN 2005

Both common and preferred shares continued their good performance of recent years, reflecting the positive developments in the HUGO BOSS Group during fiscal 2005. Preferred shares rose by 21% to EUR 29.70, and common shares climbed 30% to EUR 30.50. Both share classes showed a stable and consistent upward trend during the course of the year. Common shares performed particularly well in the fourth quarter, exceeding the 30-euro mark. The DAX peaked at 5,408 points at year end, having climbed 27%. The MDAX, which lists the HUGO BOSS share, also closed at an annual high of 7,312 points (up 36%). HUGO BOSS AG's share price performance in 2005 was comparable to the performance of the two key German share indices, the DAX 30 and the MDAX. In a multi-year comparison, both share categories significantly exceeded the DAX 30 as well as the MDAX, as shown in the diagram below.

SHARE PRICE DEVELOPMENT



Key international indices also developed positively during 2005. The European EURO STOXX 50 rose by 21% and the Nikkei in Japan by 40%. The U.S. DOW JONES, however, slipped 1%.

The strong performance of preferred and common shares significantly enhanced the Group's market capitalization in fiscal 2005. Market capitalization at the end of the fiscal year had risen by EUR 432 million (up 26%) to EUR 2,120 million (2004: EUR 1,687 million). In the Deutsche Börse AG share ranking, which considers only the preferred share free float, HUGO BOSS was in 35th place in the MDAX with a market capitalization of EUR 795 million. HUGO BOSS AG was in 40th place in terms of trading volume, with an average monthly volume of 2.0 million preferred shares (2004: 1.99 million) and 406,000 common shares (2004: 436,000). Common shares traded at significantly less volume due to the lower free float.

DIVIDEND

Our shareholders participate in the earnings of the Company via dividend payments. The Managing and Supervisory Boards have therefore recommended to the Annual Shareholders' Meeting to pay a dividend of EUR 1.00 per common share and EUR 1.01 per preferred share for fiscal year 2005. This corresponds to a dividend yield of 3.3% for common shares and 3.4% for preferred shares based on closing prices as of December 31, 2005.

INVESTOR RELATIONS ACTIVITIES IN 2005

In fiscal 2005, the Investor Relations department at HUGO BOSS continued to place high priority on open communication with institutional and private investors.

The 2004 Annual Report was ranked in first place by the German business daily, "Handelsblatt," and the "Institut für Wirtschaftsprüfung an der Universität des Saarlandes" due to its transparent, detailed and easily comprehensible presentation of the business trend during 2004. Furthermore, the HUGO BOSS Annual Report won fourth place in the MDAX category in the ranking of the German business monthly, "Manager Magazin."

HUGO BOSS' approach to capital market communication is based on ongoing, up-to-date and comprehensive information about corporate developments.

Successful investment decisions require a high degree of corporate transparency and the most recent information available. HUGO BOSS provides in-depth reports on current issues and the future potential of the Group in regular teleconferences, which can be accessed from the investor relations website. In March 2005, results from fiscal 2004 were presented and discussed at the Annual Press and Analyst Conference. Furthermore, management presented the Company to both institutional and private investors at a variety of meetings, investment conferences and road shows in Germany and abroad.

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

As in previous years, the Annual Shareholders' Meeting held on May 11, 2005 was the most important investor relations event of the year, particularly for private investors, with 70% of share capital represented (2004: 68%). All agenda items submitted for consideration by the Annual Shareholders' Meeting were approved by the required majority.

INTERNET INFORMATION

The Internet is a key source of information, particularly for private investors. Up-to-date information on HUGO BOSS, such as financial reports, press releases, the financial calendar and the latest company profile, can be retrieved from the Investor Relations pages on our website along with recordings of analyst meetings, teleconferences and our annual report in pdf (full version) and html format (key sections).

SHAREHOLDER STRUCTURE

As part of the spin-off of fashion activities from the Marzotto Group, Marzotto International N. V. was transferred to the newly founded Valentino Fashion Group S. p. A. effective July 1, 2005. Marzotto S. p. A. had indirectly held shares of HUGO BOSS AG via Marzotto International N. V. Marzotto International N. V. was renamed V. F. G. International N. V. on September 28, 2005.

The Valentino Fashion Group now holds 50.9% (35,854,128 shares) of the total share capital of HUGO BOSS AG. The Valentino Group holds 78.8% of common stock (28,242,128 shares) and 22.0% of preferred stock (7,612,000 shares). This translates into a free float of 21.2% for common shares and 78.0% for preferred shares. Apart from the Valentino Group, we are not aware of any other shareholders holding more than 5% of the share capital of HUGO BOSS AG. Notable blocks of shares are held by major institutional investors in North America, Great Britain, Switzerland and Germany.

HUGO BOSS GROUP PROFILE

INTERNATIONALLY SUCCESSFUL

THE HUGO BOSS GROUP

HUGO BOSS – the name denotes success, perfection and a style that transcends international borders. The Group has been successfully asserting and expanding its position as a global market leader in the upscale fashion market for years, despite the overall weakness of the global economy.

There are many reasons for the Company's success. A major component is the professional senior management and dedicated workers who possess extensive knowledge of both markets and customers. Product competence, a global sales network and top-notch logistics are also important factors in the Company's successful development. Uniform presentation of our products throughout the world and effective marketing measures support the strong image of the HUGO BOSS brands and the Company.

PRODUCT PORTFOLIO

The HUGO BOSS brands encompass all key fashion areas, ranging from classic clothing, evening and leisurewear to functional sportswear and complementary accessories.

Licensed products such as eyewear, watches, fragrances and cosmetics further enhance our collections. In the cosmetics segment, the new skincare series for men, BOSS Skin, enjoyed immediate market success in 2005.

THE HUGO BOSS BRAND WORLD

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

BRAND OVERVIEW

Brand	Line	Name	Product Group
BOSS	BOSS HUGO BOSS	BOSS Black	Menswear Womenswear Accessories
	BOSS HUGO BOSS SELECTION	BOSS Selection	Menswear Accessories
	BOSS HUGO BOSS	BOSS Orange	Menswear Womenswear Accessories
	BOSS HUGO BOSS	BOSS Green	Menswear Sporting Accessories
HUGO	HUGO HUGO BOSS	HUGO	Menswear Womenswear Accessories
BALDESSARINI	Baldessarini BALDESSARINI	BALDESSARINI	Menswear Accessories

These brand collections and their fashion lines are aimed at various target groups, creating a brand world of extraordinary fashion diversity at a constantly high level of quality.

The BOSS Black, BOSS Selection, BOSS Orange and BOSS Green lines as well as the accompanying accessory collections are all part of the core BOSS brand.

BOSS BLACK

The womenswear and menswear collections of the BOSS Black line offer wide-ranging styles. The comprehensive spectrum encompasses elegant business ensembles, casual sports clothing and evening wear designed for special festive occasions. The person wearing these clothes appreciates the flawless look that expresses his or her personality and the high standards of quality.

BOSS SELECTION

The luxurious BOSS Selection Menswear collection embodies the premium tier of the BOSS brand world, implementing the design competence of the BOSS brand using the best materials and the finest workmanship. Hand-stitched details and features of traditional custom tailoring express the line's exclusive nature and assure its positioning in the upper market segment.

BOSS ORANGE

The BOSS Orange collection offers leisure fashion for men and women who enjoy stylish outfits and an element of surprise. Unusual materials, vibrant colors and intricate details are aimed at customers who like experimenting with fashion and also value good workmanship.

BOSS GREEN

The functional sportswear in the BOSS Green line offers athletic and fashion-oriented men a collection that promises optimum performance from both a sports and fashion perspective.

HUGO

The HUGO brand combines creativity and individuality. It offers self-confident men and women a collection to express their own style. HUGO is unconventional and avant-garde – a fashion defined not by age group, but by attitude.

BALDESSARINI

The BALDESSARINI designer label represents luxury mixed with modern individualism for men with exacting standards.

CREATIVITY AND PERFECTION

The process of designing the collections and developing state-of-the-art manufacturing techniques takes place at the Group's headquarters in Metzingen. Here, our creative teams design new models for each season of the year that are in step with current fashion trends.

First, patternmakers transform ideas into prototypes. Sample collections are prepared as part of the further creative process; these are then presented as retail samples in worldwide showrooms. After the orders have been received, production planning in Metzingen prepares the models for series production.

The introduction of new, labor-intensive collections such as BOSS Orange Womenswear presents increasing production challenges, which we are meeting by developing unique processing techniques.

Modern distribution logistics using automated warehousing and conveying techniques guarantee optimum goods flow management throughout the process chain.

Our quality control management oversees the entire production process and ensures that our high quality standards are maintained – from the selection of suppliers and procurement of raw materials to the delivery of the finished collection to retail stores.

INNOVATION

In addition to steadily developing its collections, HUGO BOSS also continues to focus on new technologies and optimized work processes. With this goal, we initiated the Columbus project, the most comprehensive project in our corporate history. Columbus aims to significantly increase efficiency in all business processes and involves reorganizing all processes, from collection planning and production up to delivery. This allows us to predefine delivery windows for complete fashion programs accurate to the week and to service retailers just in time; a development that is unique in the fashion industry, meets today’s demands and underpins our market leadership.

DISTRIBUTION

HUGO BOSS products are available worldwide in over 100 countries. Our own subsidiaries guarantee professional knowledge of key local markets. Our architects, merchandising teams and marketing services assist in the uniform presentation of HUGO BOSS at over 5,000 points of sale. Shop concepts are updated on an ongoing basis to enable constant innovative and high-quality presentation of our products.

Our new accessory stores, for instance, are reaping the benefits of our new shop design. The first two such stores, opened in Frankfurt and Amsterdam in 2005 were immediately successful. This is an important step in expanding this market segment, which is of great significance to HUGO BOSS.

COMMUNICATIONS

Corporate and brand communication at HUGO BOSS is coordinated at our headquarters in Metzingen and supported by in-house staff at the subsidiaries as well as international public relations agencies.

In addition to handling international business and lifestyle press relations, these professionals design and place magazine print ads and update our Internet presence, which is growing in importance as a marketing tool.

SPONSORSHIP AND EVENTS

HUGO BOSS maintains very successful sponsorship programs. Cultural sponsorships link the HUGO BOSS brands with the aesthetic appeal, openness and innovation that are characteristic of the art world, while our sport sponsorships lend the BOSS core brand the attributes of success, fascination and dynamism.

Major international fashion events serve to further enhance the HUGO BOSS brands by creating an additional emotionally charged aspect.

HUGO BOSS IN THE U.S.A.

HUGO BOSS products are available in 108 countries. The U.S.A. is one of the Group's key international markets.


BOSS

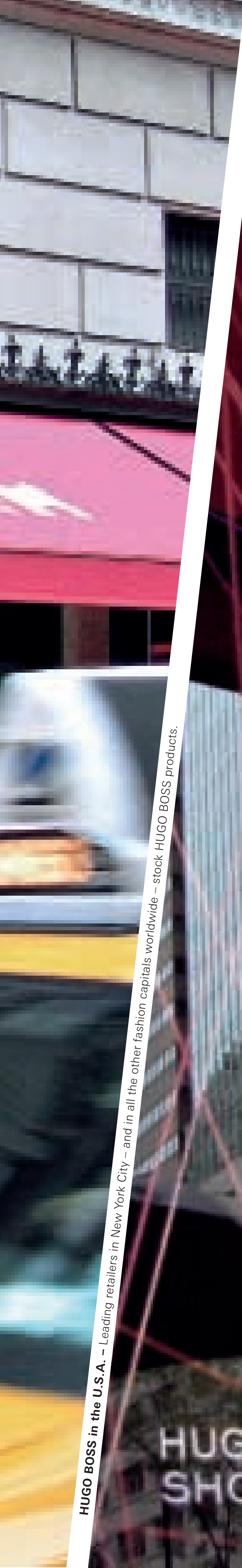
NEW YORK CITY

HUGO BOSS in the U.S.A. – HUGO BOSS has maintained its own subsidiary in New York City since 1986. Our impressive showrooms overlook the Hudson River.


BOSS
HUGO BOSS
717 Fifth Avenue
10 Columbus Circle
PARK


BOSS
BOSS

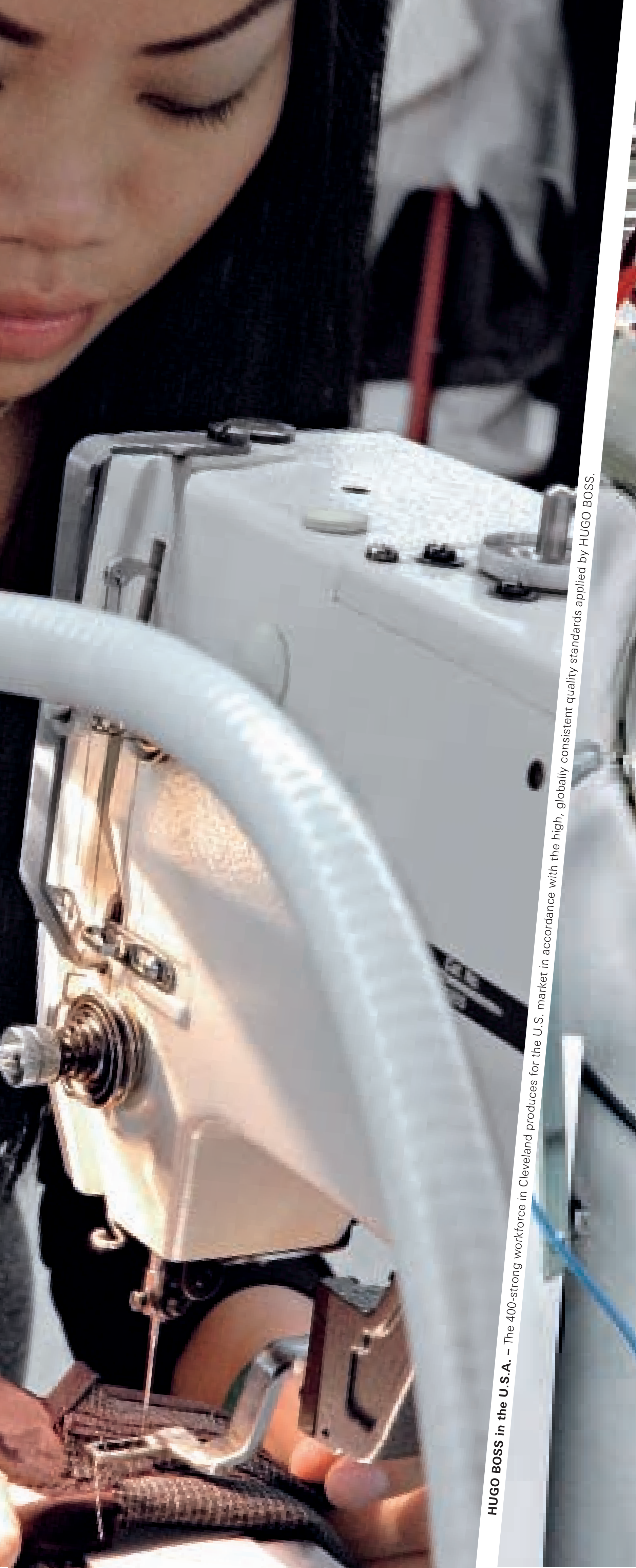
HUGO BOSS in the U.S.A. – Our 43 U.S. stores are sited at the country's prime locations, including New York's Columbus Circle and Fifth Avenue.



HUGO BOSS in the U.S.A. *– Leading retailers in New York City – and in all the other fashion capitals worldwide – stock HUGO BOSS products.*


GO BOSS

HUGO BOSS in the U.S.A. – To ensure perfect logistics in the U.S., HUGO BOSS maintains its own production subsidiary in Cleveland, Ohio.

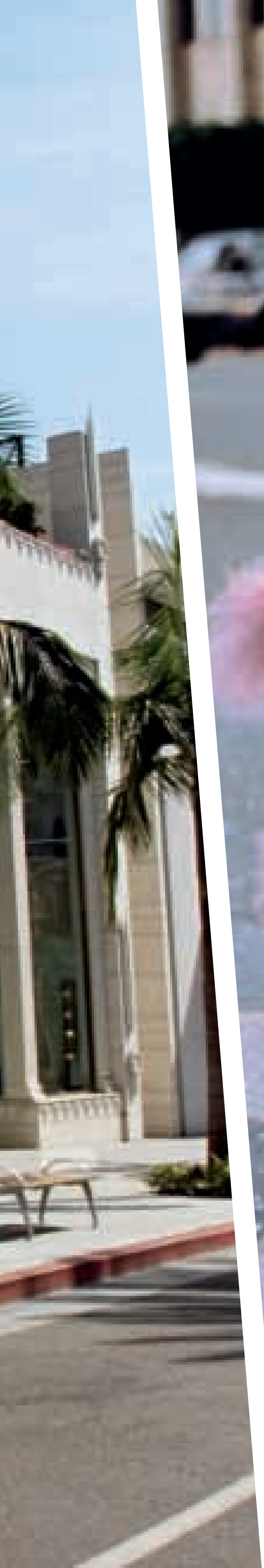


HUGO BOSS in the U.S.A. – *The 400-strong workforce in Cleveland produces for the U.S. market in accordance with the high, globally consistent quality standards applied by HUGO BOSS.*

LOS ANGELES

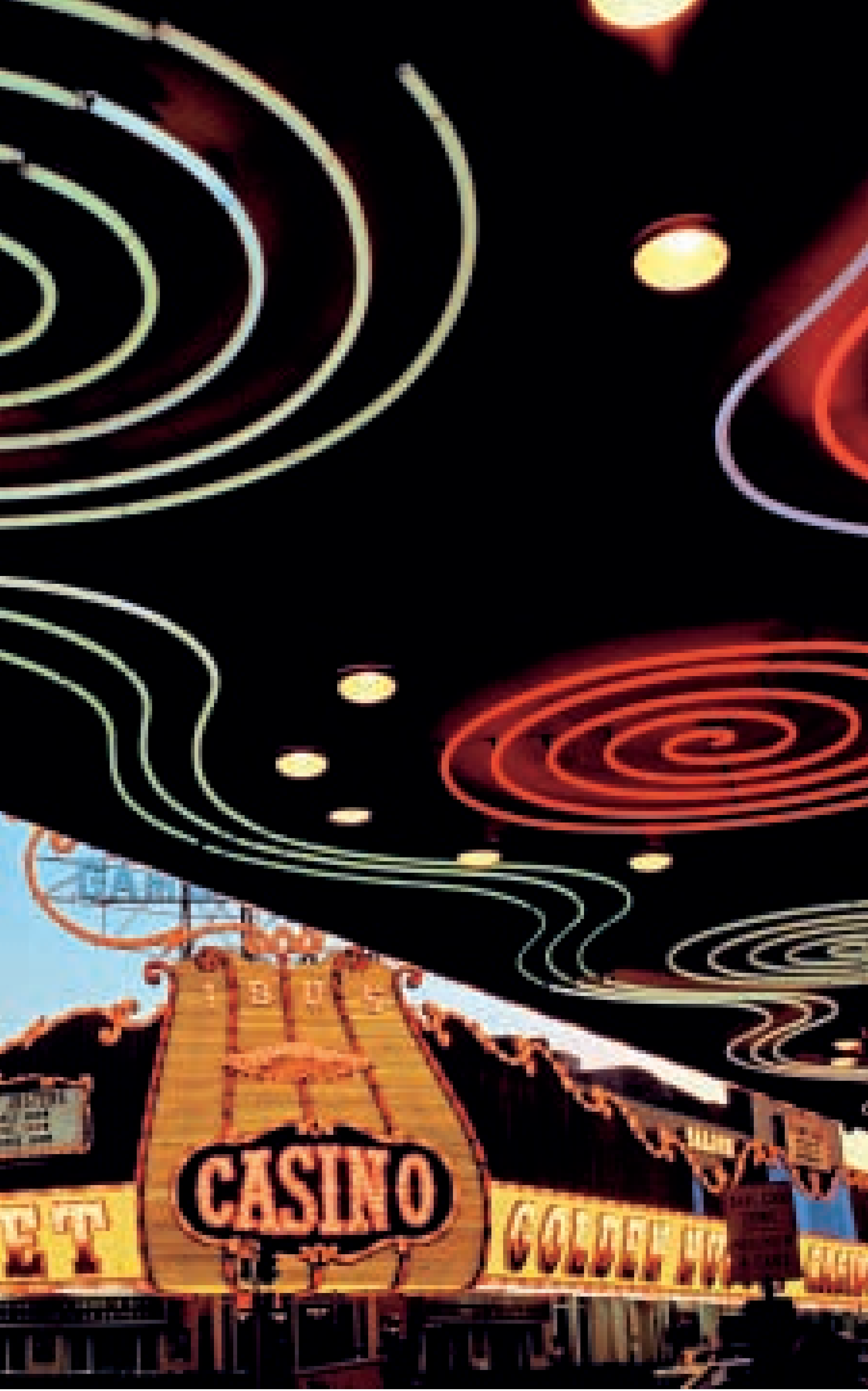
HUGO BOSS in the U.S.A. – HUGO BOSS wardrobes movies and top personalities in the star-studded city of Los Angeles.


BOSS

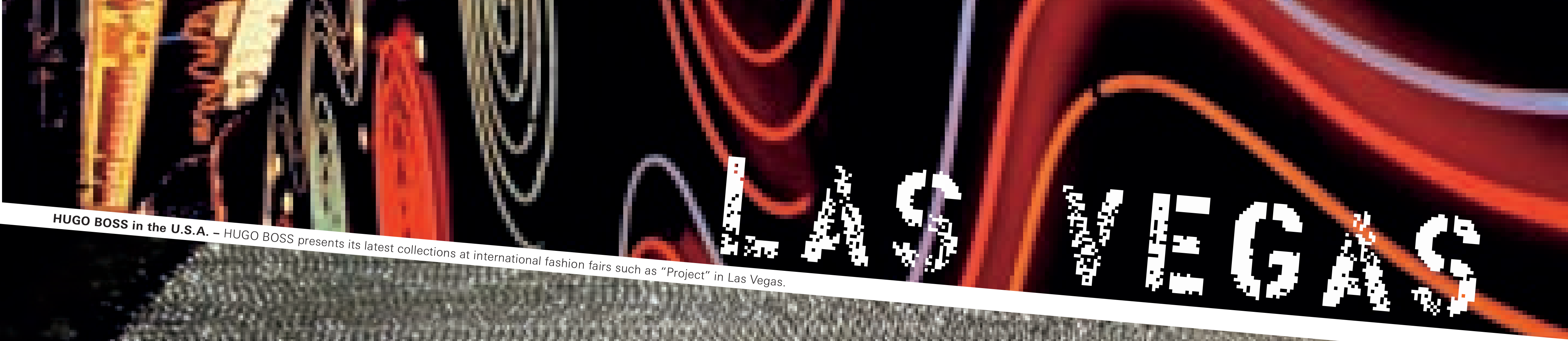


HUGO BOSS in the U.S.A. – *Riveting fashion events emotionalize the HUGO BOSS brands.*


Hugo


CASINO

LAS VEGAS



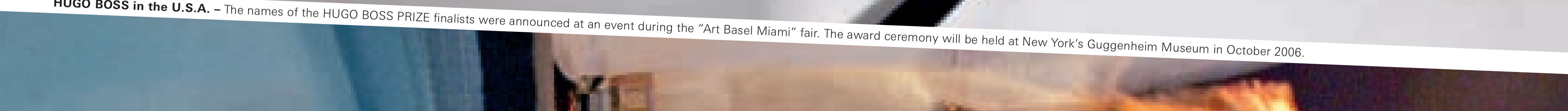
HUGO BOSS in the U.S.A. – HUGO BOSS presents its latest collections at international fashion fairs such as "Project" in Las Vegas.


BOSS


FLORID
44 - 24

HUGO BOSS in the U.S.A. – HUGO BOSS operates a prestigious showroom in the trendy and vibrant city of Miami.

HUGO BOSS in the U.S.A. – The names of the HUGO BOSS PRIZE finalists were announced at an event during the "Art Basel Miami" fair. The award ceremony will be held at New York's Guggenheim Museum in October 2006.



HUGO BOSS in the U.S.A. – Sponsored by HUGO BOSS since 1986, the Indy Racing League ranks among the country's most popular motor sports series.

TEXACO
TEXACO

REPORT OF THE MANAGING BOARD

PAGES 065 TO 118

SALES BY BRAND

in EUR million	2005	2004	Change in %
BOSS	1,167.5	1,044.5	12
Man	1,071.8	975.2	10
Woman	95.7	69.3	38
HUGO	124.5	106.6	17
BALDESSARINI	17.4	17.3	1
Total	**1,309.4**	**1,168.4**	**12**

SALES BY REGION

in EUR million	2005	2004	Change in %
Germany	318.4	292.2	9
Other European countries	582.5	519.0	12
Americas	233.4	205.1	14
Asia/other regions	134.2	111.7	20
Royalties	40.9	40.4	1
Total	**1,309.4**	**1,168.4**	**12**

SALES BY QUARTER

in EUR million	2005	2004	Change in %
First quarter	405.6	357.3	14
Second quarter	218.7	196.9	11
Third quarter	438.6	392.7	12
Fourth quarter	246.5	221.5	11
Total	**1,309.4**	**1,168.4**	**12**

This double page is not part of the management report.

TOTAL GROUP SALES

€1,309.4 million

INCREASE BY 12%

NET INCOME

€108.2 million

CLIMBS BY 23%

CASH FLOW

€153.9 million

RISES BY 28%

THE HUGO BOSS GROUP

HUGO BOSS AG, headquartered in Metzingen, Germany, is the parent company of the HUGO BOSS Group with subsidiaries in 21 countries. HUGO BOSS is one of the most successful international fashion companies in the high-end fashion market.

In fiscal 2005, HUGO BOSS AG was led by five Managing Board members. Due to organizational restructuring, the Managing Board was reduced to four management departments during the course of 2005. HUGO BOSS Group business is primarily conducted by subsidiaries whose managing directors report to the Managing Board.

HUGO BOSS is represented in the fashion market by three independent brands: BOSS, HUGO and BALDESSARINI. The textile collections are rounded out by accessories. Licensed products such as fragrances and cosmetics as well as watches and eyewear complete the product range. HUGO BOSS products can be found in more than 100 countries and over 5,000 points of sale. To reinforce the focus on its core brands, the HUGO BOSS Group will discontinue the textile activities of the BALDESSARINI brand after delivery of the spring/summer 2007 collection.

Outstanding product competence, a high level of quality, excellent value and efficient logistics distinguish HUGO BOSS as a professional business partner for its customers.

THE HUGO BOSS GROUP'S INTERNAL CONTROL SYSTEM

The HUGO BOSS Group's internal control system encompasses strategic planning for the Group, a Group reporting system, key performance indicators (KPI) reports tailored to individual companies and divisions, and a database-supported data warehouse. Strategic planning for the Group is formulated for three years and is revised annually as part of the comprehensive budget process. Under the Group reporting system, all subsidiaries provide detailed sales, expense and balance sheet data on a monthly basis. This data is consolidated into management reporting and incorporated into the published quarterly and annual reports of the Group. Subsidiaries submit assessments of current business developments and anticipated annual results at regular intervals. Detailed KPI reports support subsidiaries and operational divisions in managing internal processes. The data warehouse provides management throughout the Group direct access to management information, which is in part updated daily.

The internal control system of the HUGO BOSS Group enables the Group's business development to be monitored at the operational process level, deviations from targets to be identified at an early stage and, if necessary, corrective measures to be taken. The management system is characterized by high levels of transparency, customer orientation and efficiency.

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

KEY PERFORMANCE INDICATORS AND KEY FIGURES

		2005	2004
Net sales	in EUR million	1,309.4	1,168.4
Gross margin ratio	in %	55.9	54.0
EBITDA	in EUR million	204.2	172.7
EBIT	in EUR million	162.9	135.3
EBIT margin	in %	12.4	11.6
Return on sales	in %	8.3	7.5
Net working capital [1]	in EUR million	279.5	290.3
Return on investment	in %	28.1	23.3

1 Net current assets.

The HUGO BOSS Group's control system is especially significant in light of the fact that the variable component of compensation for the Group's top management is linked to the indicators mentioned above. The planning, reporting and analysis instruments in use are optimized continuously and adapted to the Group's development as well as to increasing requirements.

FISCAL 2005

IN REVIEW

GENERAL ECONOMIC DEVELOPMENTS

The global economy showed solid growth during fiscal 2005, despite significantly higher energy and raw material prices. In accordance with estimates by the International Monetary Fund (IMF) the rise in international economic output, i.e., the total of all gross domestic products (GDP) was approximately 4.3%. Raw material costs increased significantly in 2005, with the price of crude oil rising from approximately USD 40 to nearly USD 60 per barrel by the end of the year. This increase negatively impacted global inflation rates. According to the EU statistical bureau, Eurostat, the average inflation rate in the eurozone was 2.4% in 2005. Inflation rose considerably more sharply in the U.S. in 2005, increasing nearly 4% according to information from the National Association for Business Economics. The U.S. Federal Reserve increased the prime rate several times in order to counteract a further rise in the inflation rate. The European Central Bank also employed restrictive monetary policy as its main instrument, increasing the prime interest rate by 25 basis points in the second half of the year.

The global economy nevertheless improved during 2005, above all due to sustained economic growth in China. The IMF forecasts an increase in gross domestic product of approximately 9.0% for the People’s Republic in 2005. The Indian and Russian economies also performed very well, showing growth rates of 7.1% and 5.5%, respectively. The gross domestic product in Japan, however, developed more moderately, increasing 2.0% during 2005.

The U.S. had the highest domestic growth among Western industrialized nations in 2005 with GDP growth of 3.6% according to the Organization for Economic Cooperation and Development (OECD). Despite continued stagnation in domestic demand and the pressures of energy costs, developments in Europe, aided by a weaker Euro and strong exports, were comparatively positive. According to IMF estimates, GDP in the European Union (EU) grew a total of 1.6% in 2005.

As predicted by economic experts, economic growth in Germany was the lowest in the European Union. In December 2005, the ifo Institute estimated GDP growth of only 0.9% for the most populous country in Europe in the year under review, after a comparatively high increase in economic output of 1.6% in 2004. The only positive contribution to the German economy in 2005 was made by foreign trade, which remained the primary source of economic growth. Domestic demand remained weak in Germany. Not until the fourth quarter did a clear upward trend emerge in Germany based on estimates of the renowned “Kieler Institut für Weltwirtschaft.” The leading economic indicators were increasingly positive, primarily due to high levels of new orders in the processing industry. Private consumption remained subdued for most of fiscal 2005 before signs of improvement became apparent towards the end of the year. However, sales during November and December did not exceed the previous year’s level.

SECTOR DEVELOPMENTS

The German fashion market has stabilized at a low level, though it continues to show recessionary tendencies. The market declined 1% in 2005 after a decrease of 2% in 2004. The number of items sold in fiscal 2005 corresponded roughly to the previous year's level, resulting in another slight decline in the average price of items sold due to decreasing sales. The major factors contributing to the price decline were lower initial prices due to higher import levels, particularly from Southeast Asia, and the continued expansion of lower-priced retail brands.

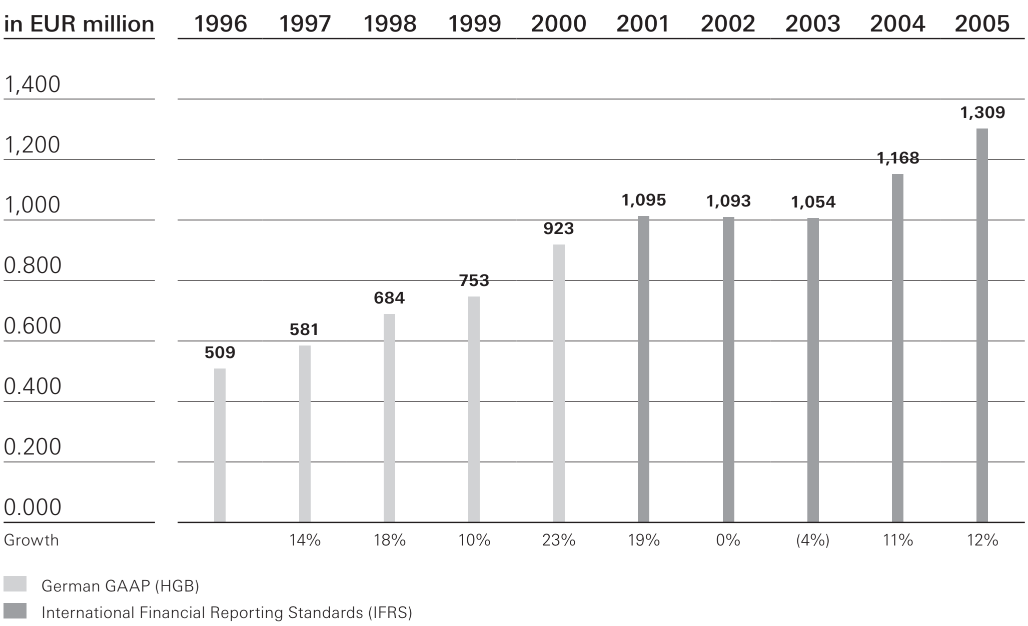
Other major international fashion markets have experienced a slight increase. The U.S. market in particular saw sustained, solid growth of 3%. The Asian markets also showed a favorable trend, with average growth of 5 to 6%.

The world fashion market grew by a total of 3% in 2005.

FINANCIAL PERFORMANCE

GROUP SALES RISE BY 12%

DEVELOPMENT OF GROUP SALES



Sales of the HUGO BOSS fashion group grew considerably in fiscal 2005, increasing 12% to set a new sales record of EUR 1,309 million (2004: EUR 1,168 million). The Group saw double-digit sales growth in all key regions, with Asia/other regions establishing its significance as most important growth region with a plus of 20%.

In the fourth quarter, HUGO BOSS increased sales by 11%, continuing the positive business trend of the preceding quarters.

Along with BOSS Womenswear, the shoes and leather accessories product lines, which were integrated into the Group's business in fiscal 2004, played a major role in the sales increase, contributing approximately 2% to sales growth in fiscal 2005. Another significant factor in the positive sales trend during fiscal 2005 was the accelerated expansion of sales (+41%) via the Group's directly operated stores (DOS).

The effects of currency fluctuations in 2005 were greatly diminished in comparison to the prior year. The negative effects of the decline in the British pound in the course of the year were almost completely offset by the stronger Canadian dollar. In addition, the U.S. dollar, one of the most important foreign currencies for the HUGO BOSS Group, appreciated in value against the euro in comparison with 2004, so that exchange rate conversions had only a minimal effect.

Therefore Group sales also increased by 12% when adjusted for currency effects.

SALES IN GERMANY CLIMBED 9%

The German fashion market stabilized at a low level in fiscal 2005, declining by 1% after a decline of 2% in 2004.

Despite the weak market, HUGO BOSS made clear gains in Germany. Sales of the BOSS, HUGO and BALDESSARINI brands rose by 9% to EUR 318 million (2004: EUR 292 million).

BOSS Womenswear was again one of the most successful women's collections of the year in Germany with sales growth of 45%. BOSS Womenswear grew into one of the most important collections on the market in particular due to the steady expansion of the shoe and leather accessory business.

BOSS Womenswear thus made a crucial contribution to the positive sales growth of the HUGO BOSS Group in Germany.

EUROPE: SALES UP BY 12%

SALES IN OTHER EUROPEAN COUNTRIES

in EUR million	2005	2004	Change in %
France	117.9	99.2	19
Great Britain/Ireland	92.3	85.2	8
Benelux	86.7	83.0	4
Scandinavia	51.1	41.5	23
Italy	49.3	49.4	
Switzerland	28.9	26.5	9
Spain	42.2	34.0	24
Rest of Europe	114.1	100.2	14
Other European countries	**582.5**	**519.0**	**12**
in % of total sales	44	44	

Sales in Europe, excluding Germany, rose to EUR 583 million in fiscal 2005 (2004: EUR 519 million), which corresponds to a 12% increase over the prior-year period. HUGO BOSS increased its market share in all key European markets.

Sales in Spain rose by 24% to EUR 42 million in 2005 (2004: EUR 34 million), in Scandinavia by 23% to EUR 51 million (2004: EUR 42 million), in France – HUGO BOSS' second-largest European market – by 19% to EUR 118 million (2004: EUR 99 million), and in Switzerland by 9% to EUR 29 million (2004: EUR 27 million).

Sales in Great Britain/Ireland grew by 8% to EUR 92 million in 2005 (2004: EUR 85 million). When adjusted for currency effects, the sales increase was 9%.

Due to the generally poor market environment, sales in Italy remained unchanged in 2005 at EUR 49 million (2004: EUR 49 million).

THE AMERICAS

SALES IN THE AMERICAS

in EUR million	2005	2004	Change in %
USA	167.7	147.4	14
Canada	45.0	39.7	13
Mexico	14.5	12.8	13
Brazil	1.4	1.1	27
Rest of the Americas	4.8	4.1	17
Americas	**233.4**	**205.1**	**14**
in % of total sales	18	18	

In the Americas, HUGO BOSS increased sales by 14% to EUR 233 million in 2005 (2004: EUR 205 million). During the course of fiscal 2005, the Canadian dollar appreciated against the euro, impacting total currency-adjusted sales for South and North America, which at a growth rate of 12% were slightly below growth in the Group's reporting currency.

In the U. S., the Group's second most important market after Germany, HUGO BOSS continued on its strong growth path. U. S. sales rose by 14% in local currency. In euros, the increase was also 14%, from EUR 147 million to EUR 168 million at the end of the 2005 reporting period.

In Canada, the positive trend continued with sales growth of 13% in euro terms. Total sales grew to EUR 45 million (2004: EUR 40 million) as of the end of fiscal 2005. When adjusted for currency effects, the sales increase was 6% over the figure for fiscal 2004.

Sales in Central and South America increased by 15% to EUR 21 million in fiscal 2005 (2004: EUR 18 million). In local currency, the sales increase was 10%.

SALES GROWTH IN ASIA/OTHER REGIONS CONTINUED TO ACCELERATE

SALES IN ASIA/OTHER REGIONS

in EUR million	2005	2004	Change in %
Japan	39.9	34.8	15
Australia	18.5	17.1	8
People's Republic of China	27.4	21.5	27
Other countries	48.4	38.3	26
Asia/other regions	**134.2**	**111.7**	**20**
in % of total sales	10	10	

In the growth region of Asia/other regions, HUGO BOSS once again achieved double-digit growth as anticipated in fiscal 2005, with sales up 20% to EUR 134 million (2004: EUR 112 million). Currency-adjusted sales improved by 20%.

In Japan, expectations of an upward trend in the domestic economy were reflected in the opening of 10 additional directly operated stores (DOS) during the year. Total sales in Japan improved by 15%, from EUR 35 million to EUR 40 million. The sales increase in local currency amounted to 17%. When adjusted for the effects of the new shop openings, sales grew by 2%.

China reported the highest growth of the major markets in Asia/other regions, with sales climbing 27% to EUR 27 million in 2005 (2004: EUR 22 million). Adjusted for currency fluctuations, the sales increase was 28%.

In the remaining countries of Asia/other regions, the sales growth of 21% to EUR 67 million in 2005 (2004: EUR 55 million) demonstrates the future potential of the HUGO BOSS Group in Far East.

ROYALTIES

ROYALTIES

in EUR million	2005	2004	Change in %
Royalties, textile	0.0	0.9	
Royalties, non-textile	40.9	39.5	4
Royalties	**40.9**	**40.4**	**1**

Revenues from royalties of the HUGO BOSS Group rose slightly by 1% to EUR 41 million during fiscal 2005 (2004: EUR 40 million).

In the first half of 2004, non-periodic royalty revenues amounting to approximately EUR 1 million were received due to payment of residual royalties from the former knitwear licensee based on the settlement of remaining accounts. No similar payments had to be taken into account in fiscal 2005.

As a result of a change of licensee, royalties from watches in fiscal 2005 were slightly under the prior-year figures. The eyewear business showed a similar declining trend in royalties due to a pending change in licensee in the current fiscal year.

Royalty revenues from fragrance products grew 9% due to the market launch of three new fragrances and the successful introduction of the skincare series BOSS Skin. This increase more than compensated for the decrease in royalties from eyewear and watches.

When adjusted for the one-time effect described above, the product lines still licensed out – fragrances, eyewear and watches – continued to perform well, increasing a total of 4% in fiscal 2005.

BRAND SALES: EUR 1.8 BILLION

Brand sales achieved by HUGO BOSS products worldwide in 2005 are calculated by adding sales of HUGO BOSS licensees to HUGO BOSS sales excluding royalties, and grew by 13% to EUR 1,753 million in fiscal 2005 when compared to 2004 (EUR 1,549 million).

BOSS MENSWEAR

BOSS Menswear collections made up 82% of total sales of the HUGO BOSS Group in 2005 (2004: 83%). Sales continued to grow in fiscal 2005, increasing 10% to a total of EUR 1,072 million (2004: EUR 975 million) despite ongoing suppressed consumer spending in a number of core markets, particularly Germany.

In spite of the continuing decline of 1% in the German fashion market, BOSS Menswear once again performed well with domestic sales growth of 5%. BOSS Menswear also clearly outperformed other major fashion markets experiencing similar declines.

The trend toward high-end leisure fashion continued with sales growth of 13% to EUR 464 million (2004: EUR 409 million). The share of leisure clothing in BOSS Menswear sales climbed to 43%.

Businesswear sales also rose during the 2005 reporting period, improving 7% to EUR 608 million (2004: EUR 566 million).

BOSS WOMENSWEAR

The sustained positive sales and earnings trend of BOSS Womenswear continued in fiscal 2005 with sales increasing 38% to EUR 96 million, surpassing the figures for fiscal 2004, which were already quite high at EUR 69 million. Net income in the women’s segment was EUR 2 million (2004: EUR 0 million).

HUGO

HUGO, the fashion brand in the HUGO BOSS brand portfolio, is currently marketed in 43 countries. With sales up 17% to EUR 125 million (2004: EUR 107 million), HUGO continued its success story and solidified its leading position in key fashion markets.

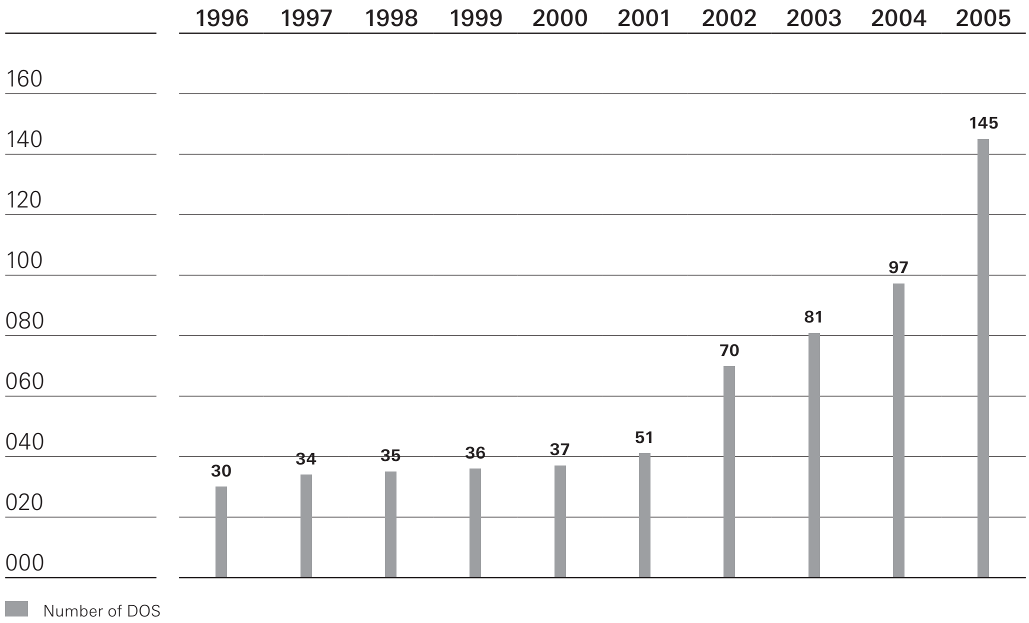
BALDESSARINI

Sales of the luxury BALDESSARINI brand rose by 1% to EUR 17 million during fiscal 2005, a slight increase over the prior-year level (2004: EUR 17 million).

SALES GROWTH IN THE DOS CHANNEL

HUGO BOSS accelerated the expansion of its network of directly operated stores (DOS) and enhanced its global presence by opening 48 new stores at strategically important locations in fiscal 2005 (2004: 16 openings). This brings the total number of stores in the HUGO BOSS Group to 145 as of the end of 2005 (2004: 97), 47 of which are freestanding stores and 98 shop-in-shops.

DEVELOPMENT OF DIRECTLY OPERATED STORES (DOS)



As part of the ongoing expansion of the shoes and leather accessories product lines, stores focusing exclusively on shoes and accessories were introduced in Frankfurt, Germany and in Amsterdam, The Netherlands. The flexible shop concept developed for shoes and accessories allows shop-in-shop space to be utilized in exclusive department stores as well as in attractive downtown locations.

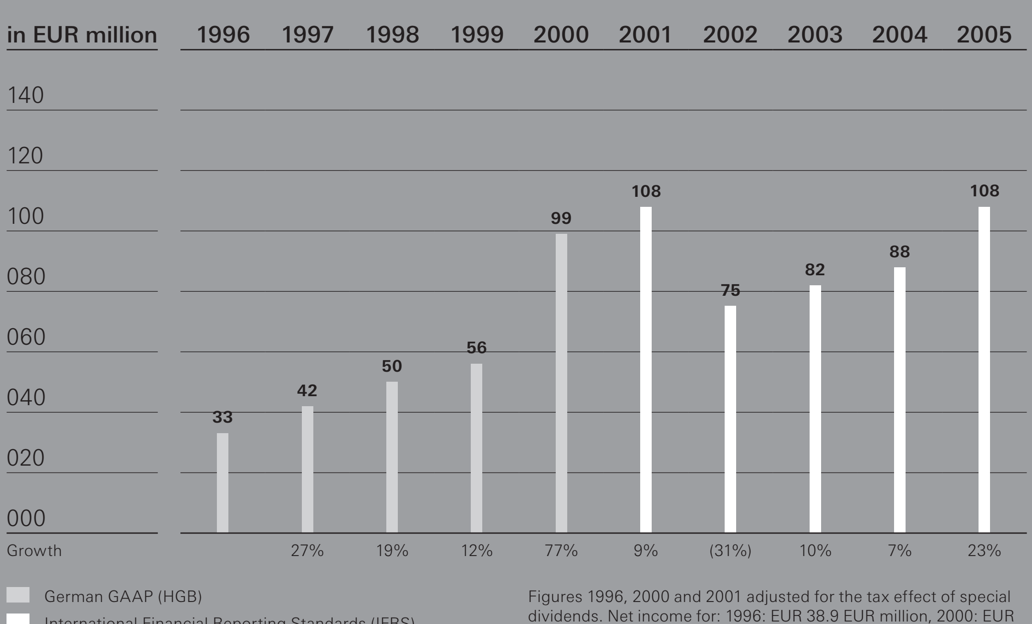
DOS sales in fiscal 2005 grew a total of 41% to EUR 138 million (2004: EUR 98 million). The proportion of sales via directly operated stores rose to 11%. Based on comparable floor space, currency-adjusted sales increased 12% compared to 2004.

INCOME STATEMENT

in EUR million	2005	2004	Change in %
Sales	**1,309.4**	**1,168.4**	**12**
Cost of materials incl. changes in inventories	(577.7)	(537.3)	(8)
Gross margin	**731.7**	**631.1**	**16**
in % of sales	55.9	54.0	
Other operating income and expenses	(289.3)	(260.1)	(11)
Personnel expenses	(238.2)	(198.3)	(20)
Depreciation/amortization [1]	(41.3)	(36.0)	(15)
Operating result	**162.9**	**136.7**	**19**
Goodwill amortization	0.0	(1.4)	
EBIT	**162.9**	**135.3**	**20**
Net financial result	(5.7)	(5.2)	(10)
Income before taxes	**157.2**	**130.1**	**21**
Taxes on income	(49.0)	(41.9)	(17)
Net income			
total	**108.2**	**88.2**	**23**
per share (EUR) [2]			
common stock	1.54	1.24	24
preferred stock	1.55	1.26	23

1 Incl. impairments.
2 Stock Options Program: Only phantom stocks issued, no dilution of number of outstanding shares.

NET INCOME: 10-YEAR OVERVIEW



Figures 1996, 2000 and 2001 adjusted for the tax effect of special dividends. Net income for: 1996: EUR 38.9 EUR million, 2000: EUR 109.0 million, 2001: EUR 117.6 million.

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NET INCOME

€108.2 million

CLIMBS BY 23%

INCOME STATEMENT

With net income up 23% to EUR 108 million (2004: EUR 88 million), the HUGO BOSS Group achieved the highest net income in its corporate history during fiscal 2005.

Income before taxes was 21% over the prior-year period at EUR 157 million (2004: EUR 130 million).

Key factors which influenced the income statement for 2005:

INCOME DEVELOPMENT

		EUR million
Net income 2004		**88.2**
Change in gross margin		100.6
Effect of sales volume on gross margin	73.6	
Effect from changes in the gross margin percentage	26.5	
Change in royalties	0.5	
Change in operating expenses and depreciation/amortization		(73.0)
from other operating expenses	(29.2)	
from personnel expenses	(39.9)	
from depreciation/amortization	(3.9)	
Change in financial result		(0.5)
Change in taxes		(7.1)
Change in income before taxes	(8.7)	
Other tax effects	1.6	
Net income 2005		**108.2**

GROSS MARGIN

The Group's gross margin improved by 1.9 percentage points to 55.9% in fiscal 2005 (2004: 54.0%).

The primary reason for the higher gross margin was the accelerated expansion of sales via directly operated stores (DOS). The proportion of DOS sales rose 3 percentage points to 11%. Another reason for the increase in the gross margin was the greater share of in-house production compared to the prior-year period as a result of the expansion of the Group's own manufacturing capacities, particularly in the womenswear area.

This improvement was countered by the lower share of royalty revenues in total sales.

OTHER OPERATING INCOME AND EXPENSES

Other operating income, net rose 11% in fiscal 2005 to EUR 289 million (2004: EUR 260 million).

With 48 store openings bringing the total number of stores to 145 (2004: 97), the Group continued its focus on global sales via its directly operated stores, strengthening this distribution channel. The opening of two new showrooms additionally increased the market presence of HUGO BOSS. This also led to a rise in distribution costs.

The women's fashion business was further enhanced by launching BOSS Orange Womenswear. Additional expenses were incurred in creating this collection, which will go on sale in the spring of 2006.

Expenses in fiscal 2005 were greater than those incurred in 2004 as a result of the scheduled expansion of the Group's manufacturing capacity in Izmir, Turkey.

Global marketing activities were intensified in comparison with 2004 in order to further support the HUGO BOSS brands. This led to an increase in both marketing expenses and marketing income, which is generated by passing on marketing costs to distributors. Net marketing expenses amounted to approximately 8% (2004: 6%) of total Group sales.

Operating expenses rose as a result of the general expansion in business volume.

PERSONNEL EXPENSES

Group capacity was increased in the year under review as a result of the higher business volumes compared to 2004. The expansion focused primarily on production and logistics.

Additional employees were hired due to the initial creation of the BOSS Orange Womenswear collection, the expansion of the Group's directly operated stores network (DOS) and the business growth in shoes and leather accessories.

In 2005, personnel expenses rose by 20% to EUR 238 million for the reasons mentioned above (2004: EUR 198 million).

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation, amortization and impairment rose by 15% to EUR 41 million in fiscal 2005 (2004: EUR 36 million), primarily due to the expansion of the Group's DOS activities and added manufacturing capacity in Turkey, but also in response to the general growth in business volume. Due to changes in IFRS regulations, trademark rights were no longer amortized in fiscal 2005 (2004: EUR 2 million).

Due to the overall business growth depriciation, amortization and impairment increased additionally.

OPERATING RESULT

Due to the influences described above, operating result rose by 19% in fiscal 2005 to EUR 163 million (2004: EUR 137 million).

GOODWILL AMORTIZATION

In accordance with IFRS, goodwill was no longer amortized during fiscal 2005. In fiscal 2004, amortization of goodwill amounted to EUR 1 million.

NET FINANCIAL RESULT

The net financial expense for fiscal 2005 was EUR 6 million (2004: EUR 5 million net financial expense).

During fiscal 2005, the Group reduced its debt as a result of the positive cash flow development which led to a slight decrease in interest expense.

A reduced impact from exchange rates in fiscal 2005 and other effects of lesser significance in other financial items led to offsetting effects on the net financial result.

TAX RATE

The average tax rate of the HUGO BOSS Group declined by 3 percentage points as a result of increased internationalization of the business and higher shares of earnings contributed by foreign subsidiaries located in countries where lower tax rates apply than in Germany.

Due to legislative changes abroad, a payment of back taxes in the amount of EUR 4 million is expected. A provision has been recognized for this expense, which led to an increase in the tax rate of 2 percentage points.

Taking into account these two contradictory effects, the tax rate of 31% in fiscal 2005 was slightly less than in fiscal 2004 (2004: 32%).

EARNINGS PER SHARE

Earnings per share rose in accordance with Group earnings. Earnings per common share increased by 24% to EUR 1.54 (2004: EUR 1.24), and earnings per preferred share by 23% to EUR 1.55 (2004: EUR 1.26). The common and preferred shares acquired by the HUGO BOSS Group as part of the stock buy-back program are not entitled to dividends. This was taken into account in the calculation. The HUGO BOSS stock option plan did not dilute earnings per share, since the plan is based on virtual shares (stock appreciation rights).

SEGMENT INFORMATION BY PRODUCT AREA

	Menswear segment[1]		Womenswear segment	
in EUR million	**2005**	**2004**	**2005**	**2004**
Sales	**1,213.7**	**1,099.1**	**95.7**	**69.3**
Depreciation/amortization[2]	(38.2)	(33.9)	(3.1)	(2.1)
Operating result	157.9	134,6	5.0	2.1
in % of sales	13.0	12.2	5.2	3.0
Net income	**106.1**	**88.0**	**2.1**	**0.2**
in % of sales	8.7	8.0	2.2	0.3
Assets	788.1	768.5	65.9	41.9
Liabilities	261.5	292.0	124.7	102.8
Equity	526.6	476.5	(58.8)	(60.9)
Capital expenditure	**73.2**	**52.2**	**3.4**	**5.1**
Number of employees (Full-time equivalents)	**6,997**	**6,595**	**587**	**347**

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

SEGMENT INFORMATION BY REGION

	2005		2004	
	EUR million	**in %**	**EUR million**	**in %**
Sales				
Germany	318.4	24	292.2	25
Other European countries	582.5	45	519.0	44
Americas	233.4	18	205.1	18
Asia/other regions	134.2	10	111.7	10
Royalties	40.9	3	40.4	3
Total sales	**1,309.4**	**100**	**1,168.4**	**100**
Assets				
Germany	324.4	38	317.1	39
Other European countries	331.8	39	305.0	38
Americas	133.3	16	132.5	16
Asia/other regions	51.7	6	48.9	6
Royalties	12.8	1	6.9	1
Total assets	**854.0**	**100**	**810.4**	**100**
Capital expenditure				
Germany	25.8	34	24.5	43
Other European countries	40.3	53	28.4	49
Americas	8.7	11	3.3	6
Asia/other regions	1.8	2	1.1	2
Total capital expenditure	**76.6**	**100**	**57.3**	**100**

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NET INCOME

€2.1 million

OF WOMENSWEAR SEGMENT

SEGMENT REPORTING

MENSWEAR SEGMENT

Sales in the Menswear segment, which contributes 93% of Group sales, increased 10% to EUR 1,214 million (2004: EUR 1,099 million) in fiscal 2005.

Sales of HUGO BOSS Menswear in Germany rose by 7% to EUR 292 million (2004: EUR 274 million) despite the 1% decline in the German fashion market. Sales growth of the Menswear segment significantly outperformed international market trends, with sales rising by 12% to EUR 922 million outside of Germany (2004: EUR 825 million).

Operating income and expenses amounted to EUR 520 million (2004: EUR 462 million), up 13% from 2004 due to the overall increase in business volume, the expansion of DOS sales and the extension of manufacturing capacity within the Group.

As a whole, Group earnings from the Menswear segment rose by 21% in fiscal 2005 to EUR 106 million (2004: EUR 88 million).

WOMENSWEAR SEGMENT

Similar to 2004, BOSS Black Womenswear continued to grow dynamically, with sales up by 38% (2004: 36%) to EUR 96 million (2004: EUR 69 million). The share of BOSS Womenswear increased to 7% of total sales due to additional improvements in the fashion statement of the collections and the quality of the products and workmanship.

The gross margin ratio in the Womenswear segment continued to improve, rising to 55% (2004: 51%) based on an increase in number of units, a higher proportion of in-house manufacturing and increased DOS sales. In fiscal 2005, the gross margin in the Womenswear segment was EUR 53 million (2004: EUR 36 million).

In this segment, operating income and expenses grew by 45% to EUR 49 million in the year under review (2004: EUR 33 million), primarily due to the initial creation of the BOSS Orange Womenswear collection, which will be available in stores in spring/summer 2006.

Taking into account the factors mentioned above, the net segment earnings of EUR 2 million clearly exceeded the prior-year level (2004: EUR 0 million).

FINANCIAL POSITION

FINANCIAL MANAGEMENT

Individual Group companies are financed either by utilizing liquidity surpluses from other corporate units in cash pools or through Group borrowings. This internal financing mechanism serves to minimize debt finance volumes and the resulting interest expense.

Most of the external financing relates to borrower's notes amounting to EUR 50 million as of December 31, 2005, which fall due during 2006 and 2007.

In addition, the Group used bank credit lines to cover short-term financial requirements and as liquidity reserve. The Group has at its disposal approved credit lines of EUR 239 million, EUR 78 million of which had been utilized at the end of the year. An additional EUR 161 million are available as liquidity reserve. The conditions for short-term credit lines are based on the creditworthiness of the HUGO BOSS Group as established by an internal bank rating system. The HUGO BOSS Group has been classified as Investment Grade. HUGO BOSS enjoys favorable conditions in the financial markets due to this good to very good credit rating.

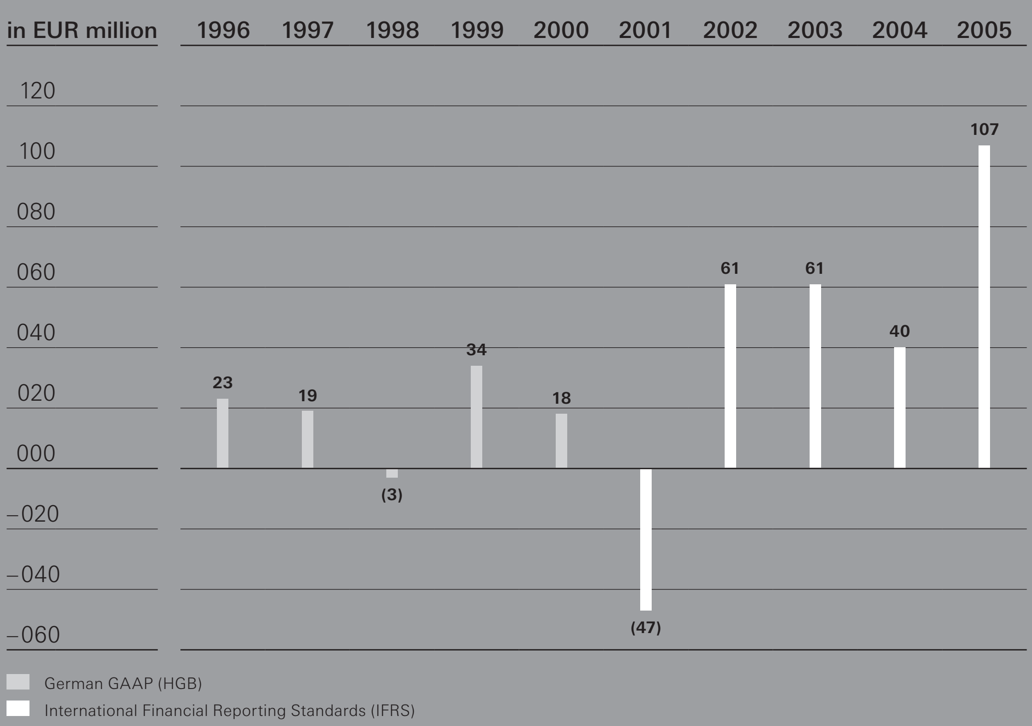
Dependence on interest rate developments is minimal due to the low debt finance level. Nevertheless, interest rate swaps and interest rate caps and floors are utilized to limit interest rate risks.

Methods for hedging the HUGO BOSS Group against exchange rate fluctuations are explained on page 110.

FREE CASH FLOW

in EUR million	2005	2004	Change in %
Net income	108.2	88.2	23
Depreciation/amortization	41.3	37.4	10
Change of pension provisions	4.4	(5.7)	
Cash flow	**153.9**	**119.9**	**28**
Net additions to fixed assets	(75.7)	(78.3)	3
Change in remaining net capital invested	25.5	9.0	
Currency translation and other equity changes	3.2	(10.5)	
Free cash flow before dividends	**106.9**	**40.1**	
Dividend payment	(59.2)	(55.2)	(7)
Free cash flow	47.7	(15.1)	

DEVELOPMENT OF FREE CASH FLOW BEFORE DIVIDENDS



FREE CASH FLOW

€106.9 million

BEFORE DIVIDENDS

CASH FLOW

Net income improved by 23% to EUR 108 million in fiscal 2005 (2004: EUR 88 million).

Depreciation, amortization and impairments rose by 10% to EUR 41 million in fiscal 2005 (2004: EUR 37 million).

Due to the first-time application of new mortality tables and adjusting the interest rate applied for discounting pension obligations, the changes in pension provisions amounted to EUR 4 million in fiscal 2005. In fiscal 2004, a payment into a U.S. pension fund had reduced pension provisions by EUR 6 million.

As a result, cash flow, i.e., net income plus depreciation, amortization and impairment as well as changes in pension provisions, rose by 28% to EUR 154 million (2004: EUR 120 million).

Outflows for investments in fixed assets reflected in particular the expansion of the Group's DOS business, the opening of additional showrooms, and the extension of the Group's in-house production capacities. After deducting cash inflows from disposals of fixed assets, net outflows for investments in fixed assets reduced cash and cash equivalents by EUR 76 million (2004: EUR 78 million).

The item "currency translation and other equity changes" reflects payments for the acquisition of own shares as well as foreign exchange differences arising from the consolidation of foreign subsidiaries. In fiscal 2005, these amounted to inflows of EUR 3 million (2004: outflows of EUR 11 million).

As a result of the circumstances described above, the free cash flow before dividends, i.e., the change in net debt before dividend payments, improved to EUR 107 million in fiscal 2005 (2004: EUR 40 million), reaching a new record in the Company's history.

Total dividend payouts for fiscal 2004 amounted to EUR 59 million in the year under review.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The HUGO BOSS Group uses off-balance sheet financial instruments to a very limited extent only. These instruments primarily concern leases related to the new administration building in Metzingen, Germany. Please see page 168 of the Notes to the Financial Statements for additional details.

CAPITAL EXPENDITURE

The HUGO BOSS Group invested a total of EUR 77 million (2004: EUR 57 million) in property, plant and equipment and intangible assets in fiscal 2005. This represents a 34% increase in the volume of capital expenditure compared to 2004.

Capital expenditure primarily focused on expansion of the international sales network with total expenses of EUR 35 million. EUR 20 million of this was incurred by the expansion of the Group's directly operated store network. A total of 48 new stores were opened in fiscal 2005, giving the HUGO BOSS Group a total of 145 directly operated stores (2004: 97). Another EUR 10 million was invested in opening new showrooms or expanding existing showrooms. In addition, approximately EUR 5 million was spent on renovating existing stores and for a number of minor projects.

The Group's growth made it necessary to further expand in-house manufacturing capacities. The BOSS Orange Womenswear line as well as shoes and leather accessories were the focus here. A total of EUR 12 million was invested in these and other projects.

The Columbus project continued as planned in fiscal 2005. This project assists in systematically identifying synergy potential and optimizing processes. The standard software solution SAP AFS is being implemented in the HUGO BOSS Group as part of this program initiated in fiscal 2003. In fiscal 2005, a total of EUR 15 million was invested in IT projects, including Columbus.

Another EUR 15 million was expended on a variety of projects such as construction of the new administration buildings and replacing equipment.

RESEARCH AND DEVELOPMENT

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

As part of the continued expansion of the product range of shoes and leather accessories, HUGO BOSS implemented new product technologies and developed its own designs and forms.

Research and development expenditures increased by 20% to EUR 30 million during the year under review (2004: EUR 25 million). The R&D ratio, i.e., R&D expense as a proportion of sales, remained unchanged at 2% (2004: 2%).

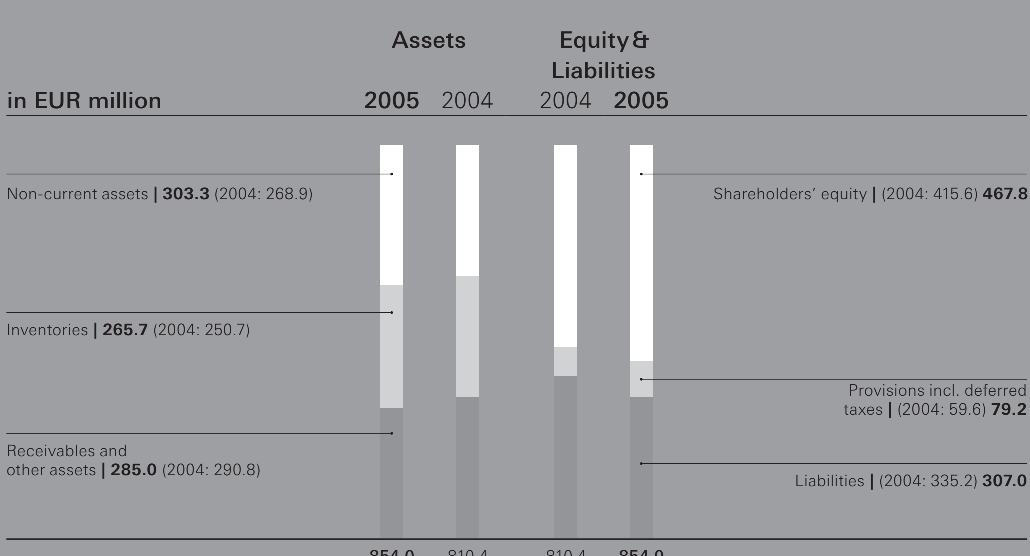
ANALYSIS OF FINANCIAL REQUIREMENTS

in EUR million	2005	2004	Change in %
Trade receivables, other assets[1]	196.8	176.7	11
Inventories	265.7	250.7	6
Trade payables and other liabilities[1]	(146.6)	(110.7)	(32)
Current provisions	(36.4)	(26.4)	(38)
Net current assets	**279.5**	**290.3**	**(4)**
Other non-current assets	26.0	38.0	(32)
Net deferred taxes	19.4	16.6	17
Other non-current liabilities	(22.3)	(18.6)	(20)
Non-current assets	303.3	268.9	13
Non-current provisions	(31.0)	(24.8)	(25)
Medium- and long-term net assets	**295.4**	**280.1**	**5**
Net assets	**574.9**	**570.4**	**1**
Balance of cash at banks and due to banks	107.1	154.8	(31)
Shareholders' equity	467.8	415.6	13
Net asset coverage	**574.9**	**570.4**	**1**

[1] Payable within one year.

Certain prior year figures in the analysis of financial requirements had to be adjusted (in accordance with IAS 8). In addition, as a result of the IFRS Improvement Project, the structure of certain balance sheet items was changed. These items are described in the notes to the consolidated financial statements.

BALANCE SHEET STRUCTURE



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EQUITY-TO-ASSETS-RATIO IMPROVES TO
FIFTY FIVE PERCENT

55%

NET ASSETS

Equity of the HUGO BOSS Group amounted to EUR 468 million as of December 31, 2005 (December 31, 2004: EUR 416 million). The equity-to-assets ratio improved to 55% (December 31, 2004: 51%).

Due to an increase in operating cash flow, net debt – i.e., cash and cash equivalents less financial liabilities – decreased significantly in comparison with December 31, 2004, declining by a total of EUR 48 million, or 31%, to EUR 107 million (2004: EUR 155 million).

KEY FINANCIAL INDICATORS

			2005	2004
Equity-to-assets ratio in %	=	Shareholders' equity / Total assets	54.8	51.3
Debt-to-equity ratio in %	=	Liabilities / Equity	82.5	95.0
Net-debt-to-EBITDA ratio in %	=	Net debt / EBITDA	52.4	89.6
Interest cover in %	=	EBIT / Net interest expense	34.3	25.3
Return on equity in %	=	Net income / Ø Shareholders' equity	23.8	21.3
Capital expenditure (EUR million)			76.6	57.3
Total assets (EUR million)			854.0	810.4

NET CURRENT ASSETS

Net current assets are comprised of current assets not including cash and cash equivalents less current liabilities as stated in the balance sheet.

Current assets not including inventories and cash and cash equivalents rose from EUR 177 million as of December 31, 2004 to EUR 197 million at the end of fiscal 2005. Trade receivables increased in particular due to the rise in business volume. The increase in other current assets resulting from advance payments was largely set off by the decrease in deferred tax assets.

Inventories rose to EUR 266 million in 2005 (December 31, 2004: EUR 251 million) as a result of the significant increase in sales via directly operated stores and the general expansion of business in comparison with fiscal 2004. Further improvements in inventory and logistic processes had the opposite effect.

Current liabilities not including provisions and financial liabilities increased to EUR 147 million as of December 31, 2005 (December 31, 2004: EUR 111 million).

Current provisions climbed by 38% to EUR 36 million in fiscal 2005 (2004: EUR 26 million). For an itemized listing, please refer to page 170 of the notes.

NON-CURRENT ASSETS, NET

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

The reasons for the changes in deferred taxes are presented on page 161 of the notes to the consolidated financial statements.

Property, plant and equipment and intangible assets increased to EUR 303 million (December 31, 2004: EUR 269 million) due to the increase in directly operated stores, the opening of additional showrooms and the additional expansion of in-house production capacity. Investments in a new IT system (SAP AFS) also increased this item.

Non-current provisions, which includes pension provisions and other provisions, increased 25% to EUR 31 million as of December 31, 2005 (December 31, 2004: EUR 25 million), primarily due to the low discount rate for pension provisions as a result of the decline in capital market interest rates.

NON-FINANCIAL PERFORMANCE INDICATORS

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

Employee qualifications: At HUGO BOSS, employees are regarded as a significant part of the Company’s assets. The ability of our employees to identify with the Company and make a commitment to its objectives, along with their dedication, are a crucial part of the Company’s success. HUGO BOSS places just as much importance on modern financial incentive models rewarding individual performance as on compensating the overall performance of our staff. HUGO BOSS AG therefore increased its contribution to the employee bonus scheme once again in 2005. Employee potential is also fostered by a high degree of personal responsibility. Thanks to our highly qualified staff, most vacant management positions can be filled by HUGO BOSS Group employees both in Germany and abroad, assuring that our expertise is being expanded and remains within the Company.

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

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

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

To this end, HUGO BOSS maintains a network of 31 showrooms in 18 key global fashion markets – one of the most international distribution systems in the high-end fashion market.

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

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

Top-notch delivery rates: The delivery rate measures the percentage of pre-ordered goods delivered to HUGO BOSS customers complete and on time. The delivery rate is thus a significant indicator of operational success. During fiscal 2005, HUGO BOSS continued to improve the delivery rate by optimizing production and logistics processes, achieving one of the highest rankings in the fashion industry at well over 95%.

MISCELLANEOUS

KEY STRATEGIC PROJECT: COLUMBUS

The HUGO BOSS Group has initiated a comprehensive and significant strategic project entitled Columbus with the aim of harmonizing and adapting corporate processes to changing conditions. These changes have mainly arisen due to the integration of new business and product lines such as shoes and leather accessories, as well as due to altered requirements from the international markets. In addition to further optimizing management structures, a new, integrated enterprise resource planning (ERP) system is being instituted as part of the project.

The implementation of a standard software solution (SAP AFS) will assist the HUGO BOSS Group in coping with changes that affect the entire value creation chain. In order to ensure that the new system is able to map the entire company with all of its complex structures, a pilot project encompassing nearly all of the Group's business processes was launched for the HUGO brand. After the software was introduced for HUGO without any difficulties and all relevant business transactions involving the fall/winter collection of 2005 had been successfully managed, implementation of the software for BOSS Orange began.

In order to manage the brand portfolio even more efficiently in the future, the responsibilities of the former member of the managing board responsible for creation were shifted to the individual brands in connection with the Columbus project. One brand director and one creative director assume joint responsibility for the development and management of the brands/lines of BOSS Black, BOSS Orange/Green, HUGO and the product lines of shoes and leather accessories.

EXPANSION OF THE WOMEN'S COLLECTION: BOSS ORANGE WOMENSWEAR

Last July, HUGO BOSS successfully presented the new BOSS Orange collection for women for the first time in Berlin.

BOSS Orange Womenswear combines a sporty look with a feminine touch. The women's collection provides the BOSS Orange line with additional growth potential and an identity that differentiates BOSS Orange from BOSS Black. Priced similarly to the BOSS men's collections and positioned in the upmarket segment, BOSS Orange Womenswear reinforces the positive sales and earnings trend in the areas of women's clothing and leisurewear.

The new collection will be presented in some 300 selected stores worldwide in the spring and summer of 2006.

FOCUS ON CORE COMPETENCIES: BALDESSARINI

Sales of EUR 1.3 billion make HUGO BOSS one of the leading fashion companies in the world. Along with creating successful collections, one of the Group's core competencies is its intimate knowledge of the international fashion markets. The HUGO BOSS portfolio includes the two core brands of BOSS and HUGO, representing 99% of the business, as well as the BALDESSARINI brand. In order to sharpen Group's profile, the HUGO BOSS Group will focus on the sustained profitable growth of the two core brands BOSS and HUGO in the future, while the BALDESSARINI collection will be phased out in spring/summer 2007.

SUSTAINED VALUE CREATION

Constant strengthening of the Group's competitiveness and a clear focus on profitable growth are the decisive elements of the Group's policy of enhancing corporate value. The Company's strategy of sustainable increases in corporate value encompasses ecological and social aspects as well.

Along with good corporate governance, value creation entails entrepreneurial responsibility and sound financial performance. These two elements complement each other at the HUGO BOSS Group.

ENVIRONMENTAL PROTECTION

Due to the fact that no noteworthy emission of environmental pollutants occurs in the course of production activities, the focus of environmental protection in 2005 was on energy-saving measures and the recycling of resources. This annual report, for example, was printed on paper from sustainably harvested resources.

Moreover, the manufacturers of the HUGO BOSS Group are committed to complying with local environmental laws and refrain from using additives prohibited by law in production.

PRODUCTION, PURCHASING AND LOGISTICS

To ensure efficiency, the areas of production, purchasing and logistics are centrally managed from the Metzingen headquarters of the HUGO BOSS Group, which also coordinates capacity utilization of individual manufacturers. In order to guarantee uniform high standards of quality, all production levels are monitored. Products are subject to a final check in Metzingen before being shipped to their global destinations.

HUGO BOSS procures the majority of its high-quality, exclusive fabrics from Italy. In order to meet challenging market demands with respect to up-to-the-minute, high quality fashions, HUGO BOSS has been nurturing close relationships with the best and most renowned weavers for many years.

ORDERS

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

Four pre-order seasons, theme-oriented delivery windows, a high proportion of stock business, and a rising focus on the Group's own retail business have significantly reduced the relevance of reporting new orders twice a year as in the past. HUGO BOSS will therefore no longer publish pre-order figures.

HUMAN RESOURCES

Employees (full-time equivalents)	2005	2004	Change in %
by region			
Germany	1,911	1,747	9
Other European countries	4,262	3,936	8
Americas	1,063	958	11
Asia/other regions	348	301	16
Total	**7,584**	**6,942**	**9**
by function			
Production/Logistics	4,992	4,774	5
Sales/Creation/Marketing	2,025	1,649	23
Administration	567	519	9
Total	**7,584**	**6,942**	**9**

KEY PERSONNEL FIGURES

	2005	2004	Change in %
Personnel expenses (total EUR million)	238.2	198.3	20
Personnel expenses per employee (EUR thousand)	32.9	30.6	8

This double page is not part of the management report.

NEW JOBS IN GERMANY
PLUS ONE HUNDRED SIXTY FOUR

+164

HUMAN RESOURCES

NUMBER OF EMPLOYEES CONTINUED TO CLIMB

At the close of fiscal 2005, the HUGO BOSS Group employed 7,584 persons worldwide (December 31, 2004: 6,942). The main reasons for the rise in the number of employees during 2005 were the expansion of in-house production and logistics capacity as well as the opening of 48 directly operated stores (DOS) as part of the continued expansion of the Group's own retail business. A total of 376 employees were hired in these divisions around the world. Higher business volumes in general required that more employees be recruited.

The HUGO BOSS Group created a total of 164 new jobs in Germany during fiscal 2005.

REORGANIZATION OF THE RECRUITMENT PROCESS

In March 2005, HUGO BOSS AG reorganized the Group's applicant and talent management process to make recruitment processes as efficient and successful as possible in the future. The new SAP e-recruiting module will use modern IT technology to optimize and process all internal and external recruiting processes across the globe. The module will also support active and comprehensive talent relationship management. A globally accessible talent pool will allow relationships with qualified candidates to be initiated at an early stage with the aim of nurturing long-term contacts. Highly integrated personnel processes and qualification profiles of internal and external candidates in digital format enable the further optimization of the Group's needs-based personnel development.

ENTRY PROGRAM FOR UNIVERSITY GRADUATES EXTENDED

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

TRAINING PROGRAMS AT HUGO BOSS AG

Twelve apprentices successfully completed their training programs at HUGO BOSS AG during fiscal 2005. Numerous activities such as internal seminars and external courses ensure that our future employees will be highly qualified.

The number of apprentice positions was again increased during 2005, reaching a total of 130 trainee positions. Students gain comprehensive insight into the business processes of the HUGO BOSS Group by participating in the daily business routine and becoming involved in projects. Approximately 15% of the apprentices/graduate students were offered permanent employment contracts based on the qualifications and specialist orientation in their studies.

TRAINING PROGRAMS AT HUGO BOSS AG

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

NEW ORIENTATION IN HUMAN RESOURCE DEVELOPMENT

Highly qualified and motivated employees are key to the business success of the HUGO BOSS Group. Our goal is to ensure via training programs that our employees are well prepared to meet future job challenges. Continuing education measures are tailored to match corporate and divisional goals.

PERSONNEL MARKETING ACTIVITIES INTENSIFIED

HUGO BOSS AG endeavored to fulfill its social responsibility by participating in a variety of marketing activities at international colleges and universities in 2005, presenting itself as a modern, attractive employer.

In addition, HUGO BOSS AG has also intensified its activities related to the priME Cup competition, a three-stage management simulation for university students from the public universities of Baden-Württemberg, one of Germany's southwestern states.

CHANGES IN THE SCOPE OF CONSOLIDATION

CONSOLIDATED GROUP

	Dec. 31, 2005	Dec. 31, 2004
Number of fully consolidated companies	52	54
Investments accounted for at equity	0	0
Total	**52**	**54**

During the year under review, two companies left the consolidated group, which consisted of 52 companies as of December 31, 2005. Five regional companies were combined into HUGO BOSS France Holding SAS (now HUGO BOSS France SAS) in order to optimize the company structure in France.

HUGO BOSS Portugal, Unipessoal, Lda. was established in the second quarter of fiscal 2005, reflecting the increasing role of the Portuguese market.

HUGO BOSS (Schweiz) AG acquired 100% of the shares in a Swiss company that operates two retail outlets in Zurich and Geneva, effective August 31, 2005, in order to strengthen the Company’s own retail business.

In addition, the position of the HUGO BOSS brands in the Benelux countries was reinforced by the establishment of HUGO BOSS Belgium Retail BVBA on December 29, 2005.

SUMMARY OF FINANCIAL POSITION AND PERFORMANCE

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

EVENTS AFTER THE BALANCE SHEET DATE

As of March 9, 2006, no material operational changes, structural modifications or business events had occurred in the HUGO BOSS Group that might serve to alter any disclosures contained in the 2005 financial statements.

RISK REPORT

RISK MANAGEMENT SYSTEM

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

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

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

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

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

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

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

Tests of risk management system functionality are performed by internal auditing as part of regular reviews of subsidiaries and corporate divisions of HUGO BOSS AG.

The HUGO BOSS risk management system fulfills the requirements under the German Law for Control and Transparency in the Area of Organizations (KonTraG) in full. HUGO BOSS is in a position to recognize risks early on and to respond quickly and appropriately.

The independent auditor examined the risk management system during the audit of the annual financial statements and confirmed its appropriateness and functionality.

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

EXTERNAL RISKS

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

INTERNAL RISKS

RISKS RELATED TO INVENTORIES AND RECEIVABLES

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

Inventory management is subject to continuous optimization, particularly with regard to the procurement chain, the expansion of stock business and electronic data interchange (EDI). Trading partners, for instance, are able to enter warehouse orders from a remote location and track inventory movements.

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

MARKET RISKS AND OPPORTUNITIES

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

Constant market observation and regular attendance at international fashion fairs ensures that trends are identified early on to serve as a basis for the collections.

Risk is also mitigated by the multi-season concept along with the broad range of collections and a market presence in over 100 countries and 5,000 points of sale.

The successful launch of the BOSS Orange Womenswear offers significant growth opportunities and should also serve to reinforce the development of the BOSS Womenswear line. The successful introduction of the BOSS Selection premium collection, which represents the pinnacle in quality for the BOSS brand, will also open up new sales potential in the years to come. The market has reacted very favorably to BOSS Selection to date.

Starting in October 2006, HUGO BOSS will introduce a new eyewear collection with its new licensee, the Safilo S. p. A. in Italy, to be marketed in HUGO BOSS stores and exclusive department stores. This alliance will generate additional growth opportunities in this segment and has been intentionally structured as a long-term strategic partnership.

RETAIL ACTIVITIES AND INVESTMENT RISK

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

This strategy not only leads to potentially higher gross margins due to a longer value creation chain, but also permits closer contact with consumers and thus a more targeted and active presentation of the product assortment. Hitherto unexploited earnings potential is to be opened up, particularly for shoes and leather accessories. The Group's first HUGO BOSS Shoes & Accessories Store was opened in Frankfurt/Main in September 2005.

These expanded retail activities, however, entail risks associated with considerable capital expenditure, high fixed costs and long-term rental agreements. In the event that stores are less successful than expected, special write-offs and even closures threaten. The investment risk is minimized by using globally uniform store interiors, which are procured at favorable conditions thanks to volume effects and can sometimes be re-used in case of a store closure.

Worldwide retail activities are continuously monitored and analyzed with the aid of a customized reporting and monitoring system. A painstaking site selection process, intensive cross-divisional planning and a multi-stage approval process all precede the opening of new stores.

TRADEMARK PROTECTION

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

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

LEGAL AND LIABILITY RISKS

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

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

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

Adequate provisions are created for court and legal advice costs.

INSURANCE

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

PERSONNEL RISKS

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

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

MANAGEMENT RISKS

HUGO BOSS is active in all the major fashion markets in the world. Business is usually conducted via subsidiaries in which the managing directors are vested with extensive authority to make decisions at their own discretion, enabling them to act promptly and autonomously in response to local market conditions. All of these senior employees are obligated to uphold principles of responsible leadership. In addition, the chains of authority at individual companies are reviewed and updated on a regular basis.

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

PURCHASING, PRODUCTION, LOGISTICS AND SALES

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

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

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

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

A detailed sales monitoring system facilitates continuous and prompt control of order levels, sales, delivery rates and other key figures.

IT AND COMMUNICATIONS RISKS

The implementation of SAP AFS standard software and the departure from the accustomed systems developed in-house is among the most challenging projects in HUGO BOSS' history, involving all divisions. The Company has guaranteed sufficient human and financial resources in order to minimize project risks. The software solution has already been successfully implemented for the HUGO brand.

IT security and system failure risks are covered to a great extent possible by means of back-up systems and regular maintenance.

FUNDING AND INTEREST RATE RISKS

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

CURRENCY RISKS

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

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

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

SENSITIVE CURRENCIES 2006

in EUR million	Cash inflow	Cash outflow	Net currency exposure	Negative impact of euro appreciation of 10%[1]
USD	74.6	(55.4)	**19.2**	1.18
GBP	62.7	(1.9)	**60.8**	1.30
CHF	35.0	(27.0)	**8.0**	0.80
CAD	19.7	(0.2)	**19.5**	0.25
Others	18.3	(0.1)	**18.2**	1.35
Total	210.3	(84.6)	**125.7**	4.88

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

The risk management targets and methods pursued by the Group by means of financial instruments are presented on page 176 of the notes to the consolidated financial statements.

When transacting currency hedges, credit risk is reduced by entering into contracts with major European banks only and considering the bank's long-term credit rating prior to making a selection.

Due to our good liquidity and credit situation, the Group is not exposed to any liquidity risks arising from the procurement of funds required to settle obligations from financial instruments.

OVERALL RISK

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

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

SALES TRENDS

in EUR million	2006	2005
Germany	↗	318.4
Other European countries	↗	582.5
Americas	↗	233.4
Asia/other regions	↗	134.2
Royalties	↗	40.9
Total	↗	**1,309.4**

EARNINGS TRENDS

in EUR million	2006	2005
Sales	↗	1,309.4
Gross margin	↗	731.7
in % of sales	↗	55.9
EBIT	↗	162.9
Earnings before taxes	↗	157.2
Net income	↗	**108.2**
Earnings per share (EUR)		
Common share	↗	1.54
Preferred share	↗	1.55

OTHER DEVELOPMENTS

	2006	2005
Number of employees (full-time equivalents)	↗	7,584
Net current assets (EUR million)	→	279.5
Capital expenditure (EUR million)	↗	76.6

This double page is not part of the management report.

NEW RECORDS IN 2006 AND 2007

FORECAST

FOR THE YEARS 2006 AND 2007

FORECAST OF ECONOMIC DEVELOPMENTS

Leading economic experts anticipate that the economic climate will continue improving slightly during the current year and in 2007. Growth rates of the major economies should reach approximately the levels of 2004 and 2005. The International Monetary Fund (IMF) forecasts growth of 4.3% for the global economy in 2006. These organizations expect the countries of Asia and Central and Eastern Europe to continue providing major impetus for growth.

The Organization for Economic Cooperation and Development (OECD) is assuming an increase in China's gross national product of 9.4%. Economists anticipate growth of 5.7% for Russia. According to the OECD, the U.S. economy is expected to grow by 3.5% in 2006, a slight decline in comparison with 2005 and the Japanese economy will be somewhat stagnant with growth of only 2.0%. Economists are predicting growth of 2.1% for 2006 in Europe with considerably more confidence than in the past. This positive assessment is based in particular on expectations of a strengthening of the economy in Germany. The ifo Institute predicts growth potential of 1.7% during 2006 for Europe's largest economy. This growth will continue to be driven by Germany's strong export economy. In addition, for the first time in years, positive impulses are also expected from increased domestic demand. Moreover, anticipatory effects from the increase in the value added tax expected in 2007 are likely to have a beneficial impact on private consumption.

Economists expect the global economy to continue to be characterized by rising raw material prices, persistent restraint in domestic demand and moderate inflation in the industrialized countries in 2006.

For 2007, experts anticipate that the global economy will continue on an upward trend. The OECD assumes average economic growth of 2.9% for all industrialized member states. It predicts increases in economic output of 3.3% for the U.S., 2.0% for Japan, and 2.2% for the Eurozone countries. Economic growth in Germany should be approximately 1.7%, while Russia is expected to increase economic output by 5.3%, and China by 9.5%.

The IMF and the OECD see significant risks over the next two years in continued sharp increases in energy costs, a deterioration in the current account situation, in particular in the U.S., and a major change in exchange rate policy in large trading countries such as China. Likewise, a sizable escalation of long-term interest rates as well as a reversal of the current upward price trend in the capital and property markets could adversely affect the international economy.

SECTOR DEVELOPMENT

During 2006, the upscale fashion segment is expected to experience nominal and real growth of 3%. The assumption is that the Asian and U.S. markets will continue to develop at an above-average rate. By contrast, the European markets are likely to see below-average growth.

SALES FORECAST

For the years 2006 and 2007, the HUGO BOSS AG Managing Board expects to achieve new records in sales.

Leisure and sportswear, BOSS Womenswear, and shoes and leather accessories are likely to continue demonstrating above-average growth compared to the other product lines.

The new BOSS Orange Womenswear collection will be marketed for the first time in the spring/summer season of 2006.

The product lines of fragrances, eyewear and watches, which are still licensed out, should also develop positively in fiscal 2006.

Royalties from fragrances are expected to grow more sharply than in fiscal 2005 due to a comparatively high number of newly launched fragrances in 2006 and the inclusion of the first full year of marketing BOSS Skin, a new men's skincare series.

The watch collection, developed together with the new licensee for watches, the MGI Luxury Group S. A., a Swiss company of the Movado Group, Inc., USA, will be marketed as of the beginning of fiscal 2006. This will allow HUGO BOSS to enhance its product portfolio in the attractive area of exclusive fashion watches.

HUGO BOSS was able to gain a global market leader in the luxury eyewear segment as its partner by licensing eyewear to Safilo S. p. A. The license agreement covers the design, production and worldwide distribution of the BOSS and HUGO eyewear collections. The collections will be presented in October 2006 and marketed internationally via the HUGO BOSS shops, in high-end department stores and opticians' shops.

The planned opening of approximately 50 new directly operated stores (DOS) will considerably expand distribution via directly operated stores, which, as in the previous year, will lead to higher sales.

The management anticipates the positive sales development to continue in fiscal 2006 and 2007.

EARNINGS TRENDS

The Managing Board of the HUGO BOSS Group anticipates that profitable growth will continue in fiscal 2006 and 2007 and that income before taxes will grow at the same rate as sales.

Significant effects on income are detailed below:

- The gross margin is expected to surpass the previous year's level due to the continued expansion of the DOS business and due to efficiencies achieved from the Columbus project.

- High growth rates in the women's collections, particularly the newly launched BOSS Orange Womenswear collection will significantly enhance BOSS Womenswear earnings in 2006.

- The shoes and leather accessories business will also benefit from economies of scale and should make an above-average contribution to earnings.

- Earnings improvements in the growth areas mentioned will be offset by additional costs, in particular the continued expansion of the directly operated stores.

ADDITIONAL JOBS

The HUGO BOSS Group will create additional jobs in both the current and in fiscal year 2007 based on the anticipation of positive business growth. Personnel increases will concentrate especially on expansion of the womenswear, shoe and accessory collections and on the addition of directly operated stores.

HUGO BOSS will also create additional jobs in Germany in the future due to increases in overall business volume.

CAPITAL EXPENDITURE

The HUGO BOSS Group will propel its business growth forward during fiscal 2006 and 2007 with expected capital expenditure volumes of EUR 85 million (2005: EUR 77 million). In particular, investments will be made in increasing the number of directly operated stores (DOS) as well as in key IT projects such as the continuation of the project to replace the Enterprise Resource Planning (ERP) Systems with SAP AFS standard software and the introduction of a retail management system.

DIVIDENDS

As in the past, the HUGO BOSS Group will continue to pursue a yield-based dividend policy, justifying investor confidence by paying out high dividends.

FINANCIAL POSITION

The Group balance sheet should continue to show a balanced proportion of shareholders’ equity and borrowings in fiscal 2006 and 2007, with an equity-to-assets ratio of over 50%. The HUGO BOSS Group expects to reduce its net debt based on the positive cash flow trend.

SUMMARY ON THE FORECAST

Based on the assumptions above, the management of the HUGO BOSS Group anticipates sales and earnings performance to continue to be positive in fiscal 2006 and 2007.

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

REPORT ON RELATIONS WITH AFFILIATED COMPANIES

Since no controlling agreement has been signed with the majority shareholder, the Managing Board of Hugo Boss AG is obligated to prepare a report on relations with affiliated companies in accordance with section 312 of the German Stock Corporation Act (AktG). This report covers the relations between the Valentino Fashion Group and the companies belonging to the HUGO BOSS Group. The Managing Board declares in accordance with section 312, paragraph 3 of the Stock Corporation Act that our Company received appropriate compensation for the legal transactions listed in the report on relations with affiliated companies in accordance with the conditions known at the time such transactions were undertaken. No measures subject to reporting requirements were undertaken in fiscal year 2005.

FURTHER INFORMATION

ON THE FINANCIAL STATEMENTS

DIVIDEND PROPOSAL

The Managing Board and Supervisory Board will propose to the Annual Shareholders' Meeting that EUR 70,228 thousand of the distributable profit be paid as dividend as follows:

DIVIDEND PROPOSAL

EUR thousand	**2005**
1. Distribution of a dividend of EUR 1.00 per common share 35,582,249 common shares	35,582
2. Distribution of a dividend of EUR 1.01 per preferred share 34,302,833 preferred shares	34,646
Total dividend payout	**70,228**

The amounts proposed were calculated taking into account the 237,167 preferred and 277,751 common shares held by the HUGO BOSS Group as of the balance sheet date (December 31, 2005) and thus not entitled to dividends.

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

Metzingen, March 9, 2006

HUGO BOSS AG
The Managing Board

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the HUGO BOSS AG, Metzingen, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the additional requirements of German commercial law pursuant to § 315a sec. 1 of the German Commercial Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, March 9, 2006

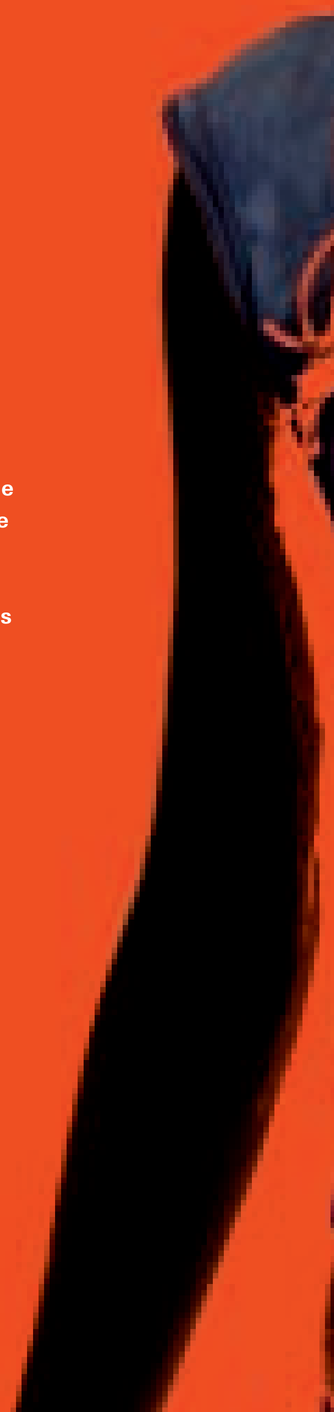
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

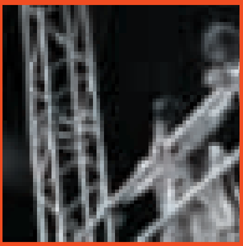
Meyer
Wirtschaftsprüfer

Hagg
Wirtschaftsprüfer

BOSS
HUGO BOSS

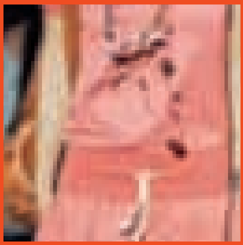
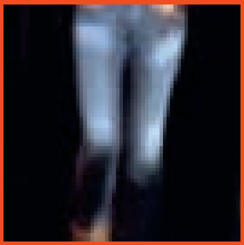
In July 2005 HUGO BOSS successfully premiered the first-ever BOSS Orange Womenswear collection at a captivating show in Berlin. Featuring elaborate details, the new BOSS Orange women's line combines casual flair with femininity. Positioned in the premium segment at prices comparable to BOSS Orange Menswear, the Womenswear collection will be on the shelves starting in spring of 2006.

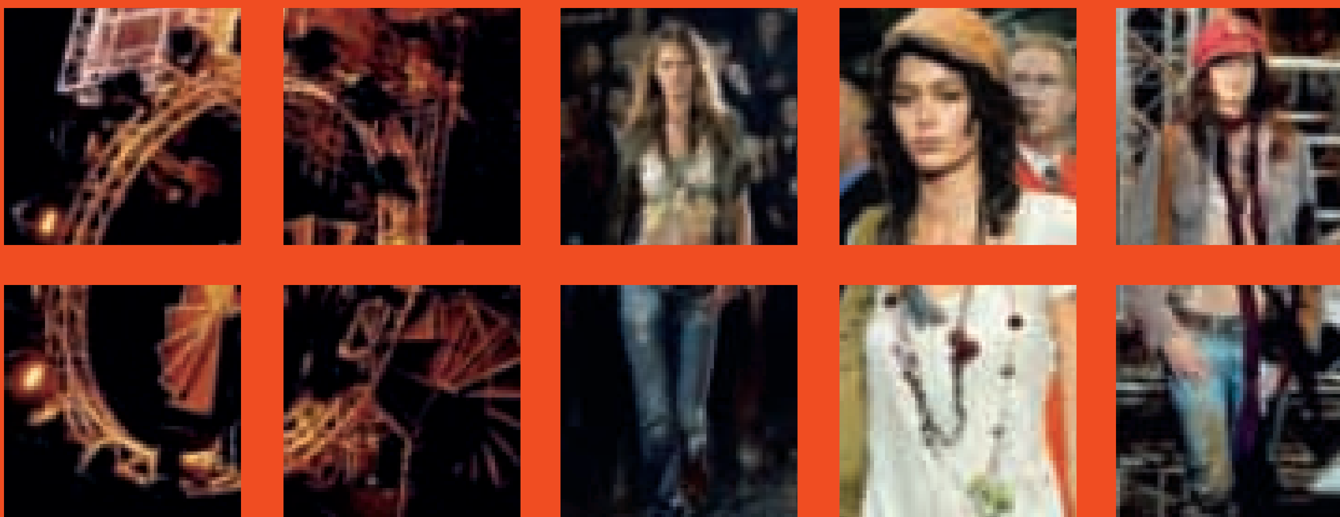




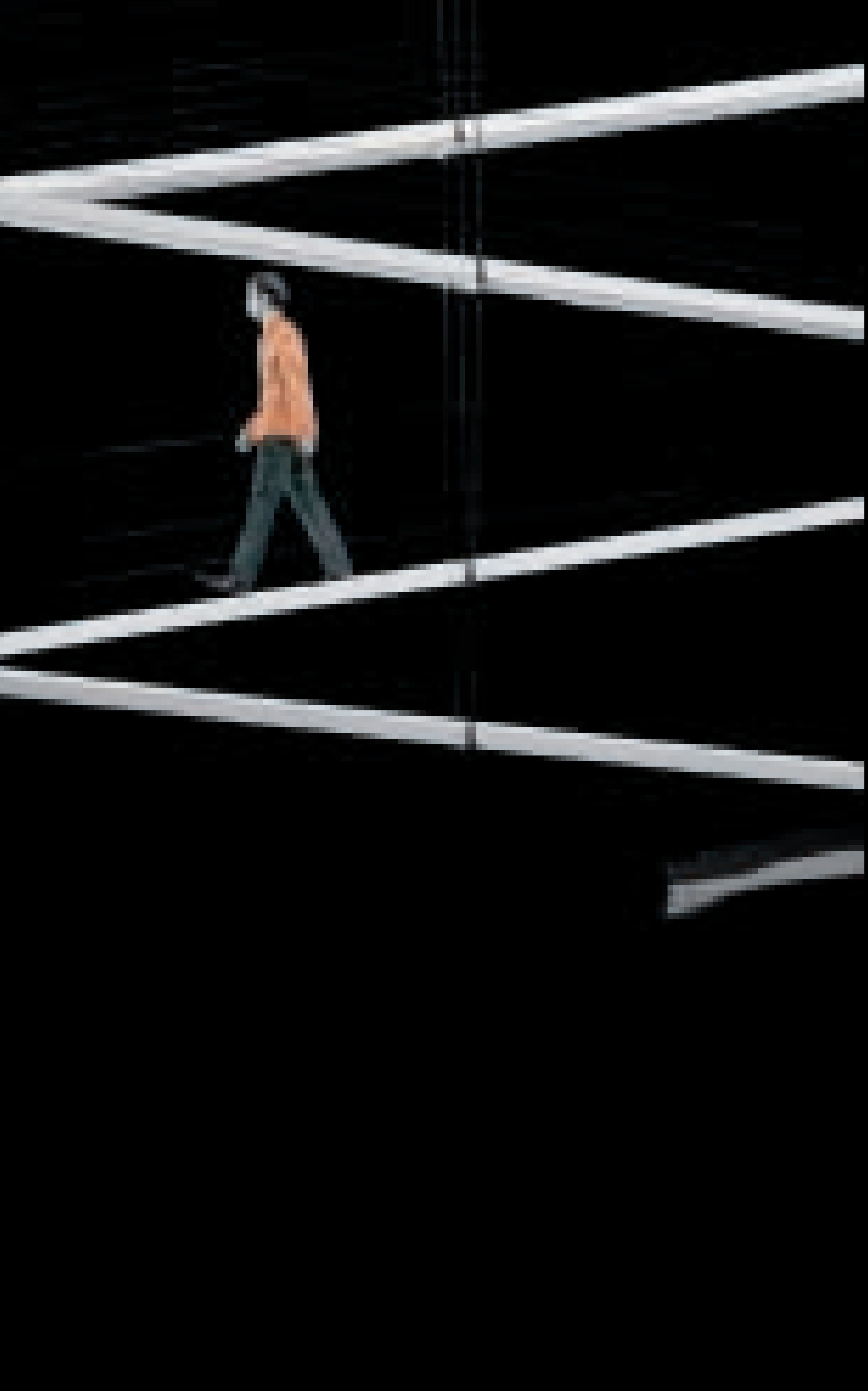


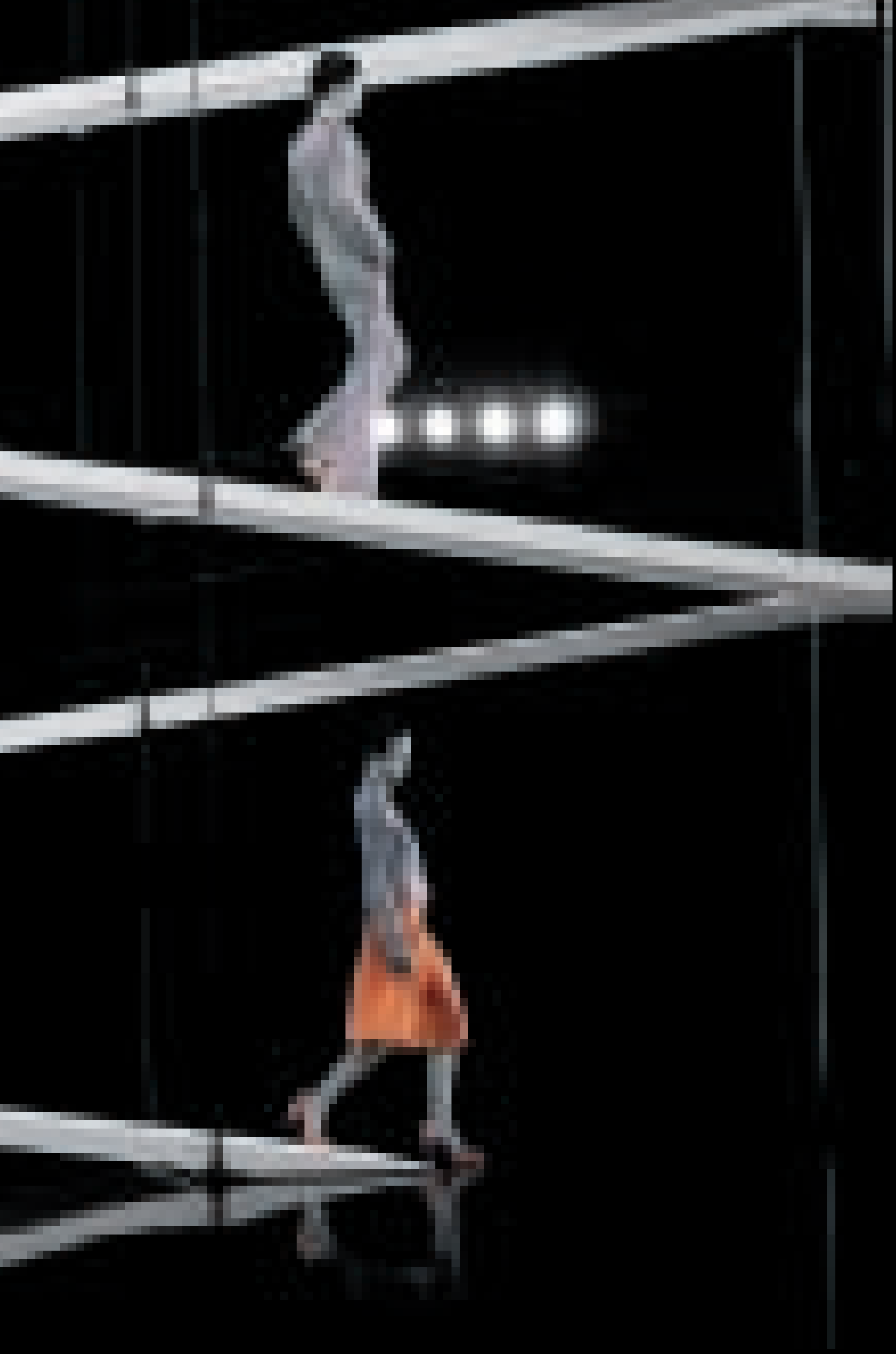




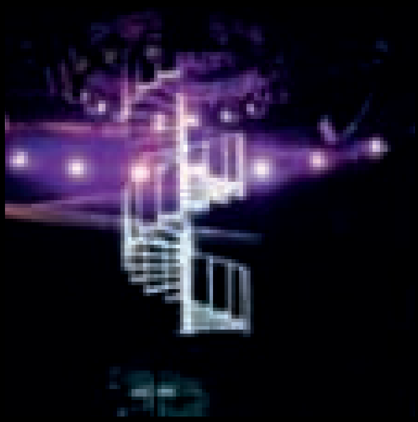



BOSS
HUGO BOSS

On the evening of July 22, 2005, HUGO BOSS presented the BOSS Black Mens- and Womenswear collections for summer 2006 at Berlin's Deutsche Oper. During the glamorous event, more than 50 top models paraded the upcoming season's looks for the 950 invited guests.







CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

OF HUGO BOSS GROUP
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2005

in EUR thousand	Notes no.	2005		2004
Sales	(1)	**1,309,417**		**1,168,355**
Other operating income	(2)	51,395		38,525
Changes in inventories and other own costs capitalized		19,500		31,854
Cost of materials	(3)	(597,163)		(569,159)
Personnel expenses	(4)	(238,199)		(198,284)
Depreciation/amortization	(5)	(41,320)		(37,399)
Other operating expenses	(6)	(340,717)		(298,607)
Operating result			**162,913**	**135,285**
Net interest expense		(4,753)		(5,338)
Other financial items		(922)		119
Financial result	(7)		**(5,675)**	**(5,219)**
Income before taxes			**157,238**	**130,066**
Income taxes	(8)		(49,027)	(41,882)
Net income			**108,211**	**88,184**
Profit attributable to shareholders of HUGO BOSS AG			108,259	88,234
Minority interests	(9)		(48)	(50)
Net income			**108,211**	**88,184**
Earnings per share (EUR) [1]	(10)			
common stock			1.54	1.24
preferred stock			1.55	1.26
Dividend per share (EUR)	(22)			
common stock			1.00	0.84
preferred stock			1.01	0.85

1 Basic and diluted earnings per share.

CONSOLIDATED BALANCE SHEET

OF HUGO BOSS GROUP AS OF DECEMBER 31, 2005

ASSETS

in EUR thousand	Notes no.	2005		2004
Intangible assets	(11)	74,364		61,811
Property, plant and equipment	(12)	228,965		207,085
Deferred tax assets	(8)	31,234		24,988
Other non-current assets	(13)	26,000		38,026
Non-current assets			**360,563**	**331,910**
Inventories	(14)	265,677		250,693
Trade receivables	(15)	145,926		128,384
Current tax receivables		2,116		9,963
Cash and cash equivalents	(16)	30,928		51,102
Other current assets	(13)	48,788		38,321
Current assets			**493,435**	**478,463**
Total assets			**853,998**	**810,373**

EQUITY AND LIABILITIES

in EUR thousand	Notes no.	2005		2004
Subscribed capital	(17)	70,400		70,400
Treasury shares	(18)	(12,097)		(2,103)
Capital reserve	(19)	399		399
Retained earnings	(20)	309,277		280,238
Accumulated other equity	(21)	(8,062)		(21,251)
Profit attributable to shareholders of HUGO BOSS AG		108,259		88,234
Equity attributable to shareholders of HUGO BOSS AG		468,176		415,917
Minority interests	(9)	(331)		(283)
Equity			**467,845**	**415,634**
Non-current provisions	(23)	31,017		24,776
Non-current financial liabilities	(25)	82,333		114,581
Deferred tax liability	(8)	11,819		8,383
Other non-current liabilities	(26)	22,312		18,554
Non-current liabilities			**147,481**	**166,294**
Current provisions	(23)	36,405		26,444
Current financial liabilities	(25)	55,679		91,294
Current tax payables		27,379		8,677
Trade payables	(27)	80,723		66,308
Other current liabilities	(26)	38,486		35,722
Current liabilities			**238,672**	**228,445**
Total equity and liabilities			**853,998**	**810,373**

STATEMENT OF CHANGES IN EQUITY

OF HUGO BOSS GROUP
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2005

				Retained Earnings	
in EUR thousand	**Sub-scribed Capital**	**Treasury Shares**	**Capital Reserve**	**Legal Reserve**	**Other Revenue Reserves**
Notes no.	(17)	(18)	(19)	(20)	(20)
January 1, 2004 before adjustment	**70,400**	**0**	**399**	**6,641**	**252,722**
Adjustment according to IAS 8					(6,342)
January 1, 2004 after adjustment	**70,400**	**0**	**399**	**6,641**	**246,380**
Net income					
Allocated to retained earnings					82,445
Dividend payment					(55,228)
Share repurchase		(2,103)			
Market valuation of hedges					
Currency translation effects					
December 31, 2004	**70,400**	**(2,103)**	**399**	**6,641**	**273,597**
Net income					
Allocated to retained earnings					88,234
Dividend payment					(59,195)
Share repurchase		(9,994)			
Market valuation of hedges					
Currency translation effects					
December 31, 2005	**70,400**	**(12,097)**	**399**	**6,641**	**302,636**

Accumulated Other Equity					
Difference arising from currency translation	Market valuation of hedges	Profit attributable to shareholders of HUGO BOSS AG	Equity attributable to shareholders of HUGO BOSS AG	Minority Interests	Group Equity
(21)	(21)			(9)	
(14,765)	1,897	82,445	399,739	(233)	399,506
			(6,342)		(6.342)
(14,765)	1,897	82,445	393,397	(233)	393,164
		88,234	88,234	(50)	88,184
		(82,445)			
			(55,228)		(55,228)
			(2,103)		(2,103)
	(400)		(400)		(400)
(7,983)			(7,983)		(7,983)
(22,748)	1,497	88,234	415,917	(283)	415,634
		108,259	108,259	(48)	108,211
		(88,234)			
			(59,195)		(59,195)
			(9,994)		(9,994)
	(2,187)		(2,187)		(2,187)
15,376			15,376		15,376
(7,372)	(690)	108,259	468,176	(331)	467,845

CONSOLIDATED STATEMENT OF CASH FLOWS

OF HUGO BOSS GROUP
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2005

in EUR thousand	Notes no.	2005	2004
Net income		108,211	88,184
Depreciation/amortization		41,320	37,399
Change in provisions for pensions		4,609	(4,859)
Cash flow		**154,140**	**120,724**
Change in inventories		(7,949)	(30,239)
Change in receivables and other assets		(8,912)	46,684
Change in trade payables and other liabilities		34,787	(4,848)
Result from the disposal of non-current assets		(122)	2,332
Change in other reserves		11,182	(8,786)
Cash flow from operating activities		**183,126**	**125,867**
Investments in PPE and intangible assets		(76,633)	(57,280)
Payments for acquisitions less cash and cash equivalents acquired		0	(8,684)
Cash receipts from sales of PPE and intangible assets		8,512	2,390
Cash flow from investing activities		**(68,121)**	**(63,574)**
Dividend from preceding year		(59,195)	(55,228)
Share repurchase		(9,994)	(2,103)
Change in current financial liabilities		(37,864)	(23,334)
Change in non-current financial liabilities		(32,876)	22,728
Cash flow from financing activities		**(139,929)**	**(57,937)**
Exchange rate-related changes in cash and cash equivalents		4,750	(1,518)
Change in cash and cash equivalents		**(20,174)**	**2,838**
Cash and cash equivalents at the beginning of the period		51,102	48,264
Cash and cash equivalents at the end of the period	(16)	**30,928**	**51,102**

SEGMENT INFORMATION

OF HUGO BOSS GROUP
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2005

SEGMENT INFORMATION BY PRODUCT AREA

	Menswear segment [1]		Womenswear segment	
in EUR million	**2005**	**2004**	**2005**	**2004**
Sales	**1,213.7**	**1,099.1**	**95.7**	**69.3**
Depreciation/amortization [2]	(38.2)	(33.9)	(3.1)	(2.1)
Operating result	157.9	134.6	5.0	2.1
in % of sales	13.0	12.2	5.2	3.0
Net income	**106.1**	**88.0**	**2.1**	**0.2**
in % of sales	8.7	8.0	2.2	0.3
Assets	788.1	768.5	65.9	41.9
Liabilities	261.5	292.0	124.7	102.8
Equity	526.6	476.5	(58.8)	(60.9)
Capital expenditure	**73.2**	**52.2**	**3.4**	**5.1**
Number of employees (Full-time equivalents)	**6,997**	**6,595**	**587**	**347**

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

SEGMENT INFORMATION BY REGION

	2005		2004	
	EUR million	**in %**	**EUR million**	**in %**
Sales				
Germany	318.4	24	292.2	25
Other European countries	582.5	45	519.0	44
Americas	233.4	18	205.1	18
Asia/other regions	134.2	10	111.7	10
Royalties	40.9	3	40.4	3
Total sales	**1,309.4**	**100**	**1,168.4**	**100**
Assets				
Germany	324.4	38	317.1	39
Other European countries	331.8	39	305.0	38
Americas	133.3	16	132.5	16
Asia/other regions	51.7	6	48.9	6
Royalties	12.8	1	6.9	1
Total assets	**854.0**	**100**	**810.4**	**100**
Capital expenditure				
Germany	25.8	34	24.5	43
Other European countries	40.3	53	28.4	49
Americas	8.7	11	3.3	6
Asia/other regions	1.8	2	1.1	2
Total capital expenditure	**76.6**	**100**	**57.3**	**100**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2005

BASIS OF PRESENTATION

The consolidated financial statements for HUGO BOSS Aktiengesellschaft for the year ending December 31, 2005 were prepared in accordance with International Financial Reporting Standards (IFRS). All International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as well as interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to fiscal 2005 have been taken into account. The preparation of the consolidated financial statements taking into account the standards promulgated by the International Accounting Standards Board (IASB) requires that assumptions be made for certain items that may impact the recognition of such items in the consolidated balance sheet and the consolidated income statement as well as the disclosure of other financial liabilities and contingent liabilities.

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

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

APPLICATION OF NEW IFRS AND AMENDED IAS

As part of its Improvement Project, the IASB has issued new IFRSs as well as amendments to several existing IASs, which are generally effective for fiscal years beginning on or after January 1, 2005.

EFFECT OF THE AMENDMENT TO IAS 38

As a result of the first-time application of IAS 38, assets with indefinite useful lives were no longer depreciated or amortized in fiscal 2005. In 2004, depreciation and amortization for assets with indefinite useful lives amounted to EUR 3.2 million. Since the amended IAS 38 need only be applied prospectively, the previous year’s figures did not have to be adjusted.

EFFECT OF THE AMENDMENT TO IAS 1

The revised IAS 1 results in a different structure of the consolidated balance sheet and contains new provisions with regard to the structure of the consolidated income statement.

Implementation of the revised IAS 1 at HUGO BOSS is based on Accounting Interpretation (Rechnungslegungs Interpretation) no. 1 (RIC 1) issued by the Accounting Interpretations Committee (Rechnungslegungs Interpretations Committee, or RIC) of the German Accounting Standards Committee (Deutsches Rechnungslegungs Standards Committee e. V., or DRSC).

In the consolidated income statement, the financial result is divided into net interest income/expense and other financial items. A further analysis of these items is provided in the notes to the consolidated financial statements.

The consolidated balance sheet is presented in accordance with maturities. Therefore, the balance sheet items are classified as either non-current or current assets and liabilities. Assets and liabilities with a remaining term to maturity of less than one year are classified as current. This also represents the Company's business cycle more accurately. Assets and liabilities with a remaining term to maturity of more than one year are classified as non-current.

Due to their long-term nature, pension obligations are shown as non-current provisions.

Minority interests are classified as a component of equity. The amendment also effects the statement of changes in equity.

The following balance sheet items were reclassified for fiscal year 2004:

in EUR thousand	2004	Reclassification acc. to IAS 1	2004 (reclassified)
Assets			
Other non-current assets	12,613	25,413	38,026
Trade receivables	153,797	(25,413)	128,384
Current tax receivables	0	9,963	9,963
Other current assets	48,284	(9,963)	38,321
Equity and Liabilities			
Non-current provisions	13,966	10,810	24,776
Current provisions	81,157	(54,713)	26,444
Current tax payables	0	8,677	8,677
Trade payables	42,734	23,574	66,308
Other current liabilities	24,070	11,652	35,722

OTHER NEW IFRS AND AMENDED IAS

The application of other new and amended standards required to be applied for fiscal years beginning on or after January 1, 2005 did not have a material impact on the Group's financial position or performance.

Standards and interpretations issued by the IASB, which are required to be applied for fiscal years beginning after December 31, 2005, have not been applied.

The future application of these standards and interpretations is not expected to have a material impact on the Group's financial position or performance.

ADJUSTMENT OF CARRYING AMOUNTS IN ACCORDANCE WITH IAS 8

In the consolidated balance sheet as of December 31, 2004, adjustments of carrying amounts are required in order to harmonize accounting policies with the provisions set out in IAS 17 (Leases) and SIC-15 (Operating Leases – Incentives).

According to IAS 8, the adjustment was made in the opening balance sheet for fiscal year 2004 and did not have an impact on the consolidated income statement published in the 2004 annual report.

The items in the 2004 consolidated balance sheet had to be adjusted as follows:

in EUR thousand	2004	Restatement acc. to IAS 8	2004 (after restatement)
Property, plant and equipment	201,591	5,494	207,085
Deferred tax assets	21,376	3,612	24,988
Equity	421,976	(6,342)	415,634
Other non-current liabilities	3,106	15,448	18,554

In addition, the financial indicators included in the 2004 annual report had to be adjusted as follows:

KEY FINANCIAL INDICATORS

			2004	2004 (after restatement)
Equity-to-assets ratio in %	=	Shareholders' equity / Total assets	52.7	51.3
Debt-to-equity ratio in %	=	Liabilities / Equity	89.9	95.0
Return on equity in %	=	Net income / Ø Shareholders' equity	21.0	21.3
Return on investment in %			23.1	23.3
Total assets (EUR million)			801.3	810.4

The adjustments presented were based on the following facts:

According to IAS 17, payments from operating leases should be recognized as an expense over the lease term on a straight-line basis. However, expenses for material leases have been recognized at the HUGO BOSS Group at the time payment is made; the amounts recognized were equal to the amount of the payment.

According to SIC-15, the lessee should recognize the aggregate benefit of incentives as a reduction of rental expense over the lease term on a straight-line basis. At variance with SIC-15, contributions by the lessor for costs of the lessee (e.g., allowances for leasehold improvements) were classified at the HUGO BOSS Group as a reduction of the investment amount.

SCOPE OF CONSOLIDATION

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

Baldessarini Design und Verwaltungs-GmbH, Munich, Germany
Baldessarini GmbH & Co. KG, Munich, Germany
BIL Leasing Verwaltungs-GmbH & Co. 869 KG, Poecking, Germany [1]
Eura 2000 S.A., Luxembourg, Luxembourg
HUGO BOSS (Schweiz) AG, Zug, Switzerland
HUGO BOSS Australia Pty. Ltd., Preston, Australia
HUGO BOSS Belgium BVBA, Diegem, Belgium
HUGO BOSS Belgium Retail BVBA, Diegem, Belgium
HUGO BOSS Benelux B.V., Amsterdam, Netherlands
HUGO BOSS Benelux Retail B.V., Amsterdam, Netherlands
HUGO BOSS Beteiligungsgesellschaft mbH, Metzingen, Germany
HUGO BOSS Canada, Inc., Toronto, Canada
HUGO BOSS Cleveland, Inc., Wilmington, DE, USA
HUGO BOSS Denmark APS, Copenhagen, Denmark
HUGO BOSS Dienstleistungs GmbH, Metzingen, Germany
HUGO BOSS do Brasil Ltda., São Paulo, Brazil
HUGO BOSS Elysees SAS, Paris, France
HUGO BOSS España, S.A., Madrid, Spain
HUGO BOSS Fashions, Inc., Wilmington, DE, USA
HUGO BOSS France SAS, Paris, France
HUGO BOSS Germany Retail GmbH, Metzingen, Germany
HUGO BOSS Holding Netherlands B.V., Amsterdam, Netherlands
HUGO BOSS Holdings Pty. Ltd., Preston, Australia
HUGO BOSS Hong Kong Ltd., Hong Kong, China
HUGO BOSS Industries (Switzerland) Ltd., Coldrerio, Switzerland
HUGO BOSS International B.V., Amsterdam, Netherlands
HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen, Germany
HUGO BOSS Italia S.p.A., Corsico, Italy
HUGO BOSS Japan K.K., Tokyo, Japan
HUGO BOSS Licensing, Inc., Wilmington, DE, USA
HUGO BOSS Mexico Management Services S.A. de C.V., Mexico City, Mexico
HUGO BOSS Mexico S.A. de C.V., Mexico City, Mexico
HUGO BOSS Outlet Magazacilik Limited Sirketi, Izmir, Turkey
HUGO BOSS Portugal, Unipessoal, Lda., Lisbon, Portugal
HUGO BOSS Retail, Inc., Wilmington, DE, USA
HUGO BOSS S.p.A., Como, Italy
HUGO BOSS Scandinavia AB, Stockholm, Sweden
HUGO BOSS Services (Svizzera) S.A., Besazio, Switzerland
HUGO BOSS Shoes & Accessories Italia S.p.A., Morrovalle, Italy
HUGO BOSS Shoes & Accessories S.A., Novazzano, Switzerland
HUGO BOSS shoes & accessories, Inc., Wilmington, DE, USA
HUGO BOSS Switzerland Retail AG, Zurich, Switzerland

1 Investments with an equity share of 94%.

HUGO BOSS Textile Industry Ltd., Izmir, Turkey
HUGO BOSS Trade Mark Management GmbH & Co. KG, Metzingen, Germany
HUGO BOSS Trade Mark Management Verwaltungs-GmbH, Metzingen, Germany
HUGO BOSS UK Limited, London, United Kingdom
HUGO BOSS USA, Inc., Wilmington, DE, USA
MSC Poland Sp. z. o. o., Radom, Poland
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstrasse KG, Duesseldorf, Germany [1]
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG, Duesseldorf, Germany [1]
The Joseph & Feiss Company, Wilmington, DE, USA

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

CHANGES IN THE SCOPE OF CONSOLIDATION

The number of consolidated companies decreased by two in comparison with December 31, 2004 and amounted to 52 companies as of December 31, 2005.

In France, five regional companies were combined into HUGO BOSS France SAS.

HUGO BOSS (Schweiz) AG acquired 100% of the shares in HUGO BOSS Switzerland Retail AG (formerly SNC Societe Nouvelle de Chaussures SA), effective August 31, 2005.

In addition, the following companies were established in fiscal 2005:

- HUGO BOSS Portugal, Unipessoal, Lda.,
- HUGO BOSS Belgium Retail BVBA.

The changes in the scope of consolidation do not have a material impact on the Group's financial position and performance in fiscal 2005.

The number of companies included in the 2005 consolidated financial statements changed as follows in the year under review:

	2005	2004
Number of fully-consolidated companies	52	54
Number of companies consolidated at equity	0	0
Total	**52**	**54**

MAJORITY SHAREHOLDER

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

PRINCIPLES OF CONSOLIDATION

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

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

CURRENCY TRANSLATION

The reporting currency of the HUGO BOSS Group is the euro. Foreign currency transactions in the separate financial statements of Group companies are translated at the exchange rate applicable on the date of the transaction. Monetary items denominated in foreign currencies are generally translated at the closing rate. The resulting foreign currency gains and losses are recognized immediately in profit or loss.

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

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

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

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

Country	Currency	Average Rate		Closing Rate	
	1 EUR =	2005	2004	2005	2004
Australia	AUD	1.6325	1.6891	1.6197	1.7567
Brazil	BRL	3.0425	3.6344	2.7748	3.6162
Denmark	DKK	7.4522	7.4399	7.4587	7.4357
Great Britain	GBP	0.6839	0.6786	0.6883	0.7086
Hong Kong	HKD	9.6992	9.6841	9.1681	10.5760
Japan	JPY	136.8685	134.3966	139.4300	141.2600
Canada	CAD	1.5102	1.6169	1.3796	1.6462
Mexico	MXN	13.5785	14.0347	12.7446	15.2411
Sweden	SEK	9.2800	9.1259	9.4076	8.9992
Switzerland	CHF	1.5483	1.5441	1.5585	1.5456
U. S. A.	USD	1.2450	1.2433	1.1825	1.3603

KEY INDICATORS OF THE SIGNIFICANT INVESTMENTS OF THE HUGO BOSS GROUP

Company
HUGO BOSS AG [1]
HUGO BOSS International B.V. [2]
HUGO BOSS USA, Inc. [3]
HUGO BOSS Trade Mark Management GmbH & Co. KG
HUGO BOSS Benelux B.V.
HUGO BOSS Industries (Switzerland) Ltd.
HUGO BOSS France SAS
HUGO BOSS Australia Pty. Ltd.
HUGO BOSS Canada, Inc.
HUGO BOSS Italia S.p.A.
HUGO BOSS UK Limited
HUGO BOSS Scandinavia AB
HUGO BOSS Mexico S.A. de C.V.
HUGO BOSS Hong Kong Ltd.
HUGO BOSS Shoes & Accessories Italia S.p.A.
HUGO BOSS España S.A.
HUGO BOSS (Schweiz) AG
HUGO BOSS Textile Industry Ltd.
HUGO BOSS Japan K.K.
HUGO BOSS do Brasil Ltda.
HUGO BOSS Shoes & Accessories S.A.

1 Profits 2004 prior to appropriation of profit arising from the profit transfer agreement with HUGO BOSS Internationale Beteiligungs-GmbH (former Holy's GmbH); Result includes proceeds from the sale of Group investments totaling EUR –119 thousand (prior year: EUR 572,721 thousand).

2 Profits include dividends receipts amounting EUR 15,230 thousand (2005) and EUR 28,992 thousand (2004).

3 Subgroup financial statements.

Head Office	Result (in EUR thousand)		Equity (in EUR thousand)	
	2005	2004	2005	2004
Metzingen, Germany	4,208	594,741	653,923	720,007
Amsterdam, Netherlands	13,215	30,653	224,224	211,009
Wilmington, DE, USA	5,175	6,416	80,215	68,351
Metzingen, Germany	56,464	5,587	73,258	24,463
Amsterdam, Netherlands	8,358	7,626	63,589	55,231
Coldrerio, Switzerland	19,790	19,203[3]	61,823	58,774
Paris, France	1,152[3]	(2,445)	42,021	40,925
Preston, Australia	2,414	1,266	18,594	16,576
Toronto, Canada	1,252	1,950	15,201	11,590
Corsico, Italy	(55)	651	14,807	14,862
London, United Kingdom	10,217	12,433	11,381	9,874
Stockholm, Sweden	2,778	2,672	8,644	6,171
Mexico City, Mexico	2,149	2,037	7,754	4,569
Hong Kong, China	5,304	7,280	5,514	4,644
Morrovalle, Italy	(754)	2,060	5,166	6,060
Madrid, Spain	141	1,148	5,143	5,002
Zug, Switzerland	1,874	2,636	4,797	2,953
Izmir, Turkey	(1,660)	(1,619)	4,327	5,815
Tokyo, Japan	(69)	(2,193)	1,332	1,382
São Paulo, Brazil	(576)	(749)	817	1,111
Novazzano, Switzerland	(1,476)	(946)	(38)	1,441

ACCOUNTING POLICIES

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

RECOGNITION OF INCOME AND EXPENSES

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

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

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

License agreements and other income are accounted for in the period of the underlying contract in line with its conditions.

Operating expenses are charged to income on the date of performance or expensed as incurred.

RECEIVABLES AND OTHER ASSETS

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

INVENTORIES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

Depreciation of buildings is in principle based on a useful life of 30 years; depreciation of buildings and leasehold improvements on third-party property is based on the shorter of the lease term or the useful life. As a general rule, movable non-current assets are depreciated using the straight-line method. For technical plant and equipment, the useful life ranges from 5 to 15 years, and for other plant and operating and office equipment from 2 to 15 years.

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

LEASE AGREEMENTS

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

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

INTANGIBLE ASSETS

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

Changes in the market value of derivative financial instruments classified as “held for trading” according to IAS 39 are recognized in the income statement.

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

IMPAIRMENT OF ASSETS

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

If the carrying amounts of the intangible assets or property, plant and equipment determined according to the principles above exceed the amount recoverable at the balance sheet date, the carrying amount of the assets is written down. The recoverable amount is the greater of the net selling price or the present value of estimated future cash flows from continuing use of the asset. In the event that reasons for impairment cease to exist, reversals of impairment losses are accounted for by a corresponding increase of the amortized cost.

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

INCOME TAXES

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

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

LIABILITIES

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

PROVISIONS

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

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

PROVISIONS FOR PENSIONS

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

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

EVENTS AFTER THE BALANCE SHEET DATE

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

JUDGMENTS MADE IN THE PROCESS OF APPLYING THE COMPANY'S ACCOUNTING POLICIES

a) Measurement of directly operated stores

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

- The individual DOS' are defined as cash generating units.
- The future discounted cash flows used for impairment tests are determined on the basis of budget planning as well as mid-term forecasting for the individual DOS'.

b) Specific valuation allowances for receivables

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

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

Seasonal discounts ranging from 5% to 90% are applied to raw materials. No write-downs are recognized for work in progress. The measurement of finished goods and merchandise is based on the fair value less costs to sell to be realized via the Group's own sales channels.

NOTES TO THE INCOME STATEMENT

(1) SALES

Sales by brand and region

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

2004 in EUR thousand	BOSS Man	BOSS Woman	HUGO	BALDES-SARINI	
Germany	224,586	17,979	43,844	5,787	**292,196**
Other European countries	451,769	26,432	35,215	5,613	**519,029**
Americas	184,738	6,254	11,940	2,131	**205,063**
Asia/other regions	95,055	12,058	3,218	1,297	**111,628**
Royalties	19,002	6,587	12,359	2,491	**40,439**
	975,150	69,310	106,576	17,319	**1,168,335**

(2) OTHER OPERATING INCOME

in EUR thousand	2005	2004
Income on marketing expenses charged	24,937	21,002
Income on other expenses charged	9,881	5,347
Non-recurring income	8,452	10,063
Other operating income	8,125	2,113
	51,395	**38,525**

Income from transfers of marketing expenses is largely composed of transfers for shop outfitting and marketing materials, as well as for advertising and sponsorship activities.

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

(3) COST OF MATERIALS

in EUR thousand	2005	2004
Raw materials and supplies	288,498	257,860
Purchased merchandise	233,825	234,363
Purchased services	74,840	76,936
	597,163	**569,159**

Cost of materials include foreign exchange losses (after netting against exchange gains) incurred as a result of sales activities in the amount of EUR 2,516 thousand (2004: foreign exchange gains amounting to EUR 55 thousand).

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

Material expenses for 2005 include impairments of inventories totaling EUR 5,182 thousand. In 2004, a gain of EUR 326 thousand was recognized.

(4) PERSONNEL EXPENSES

in EUR thousand	2005	2004
Wages and salaries	199,934	167,464
Social security	35,167	28,621
Expenditure for retirement benefits and aid	3,098	2,199
	238,199	**198,284**

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

The number of employees changed as follows:

	2005	2004
Industrial employees	4,250	4,144
Commercial and administrative employees	3,334	2,798
	7,584	**6,942**

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

In 2005, the Group employed 4,253 wage earners (2004: 3,955) and 3,073 administrative staff members (2004: 2,648) on an annual average basis.

(5) DEPRECIATION/AMORTIZATION

A breakdown of the amortization of intangible assets and the depreciation of property, plant and equipment can be obtained from the notes on each item. Total depreciation and amortization amounted to EUR 41,320 thousand (2004: EUR 37,399 thousand).

In fiscal 2005, goodwill and trademark rights was no longer amortized in accordance with the revised IAS 38 (previous year: EUR 3.2 mill.).

(6) OTHER OPERATING EXPENSES

in EUR thousand	**2005**	**2004**
Marketing expenses	127,806	93,427
Other selling expenses	107,343	100,469
General and administrative costs	34,591	31,266
Operating expenses	32,730	28,930
Other operating expenses	31,978	36,253
Non-recurring expenses	6,269	8,262
	340,717	**298,607**

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

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

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

Other operating expenses chiefly include allowances for doubtful accounts, other personnel costs, credit card fees, and hedging transaction fees.

Other operating expenses include other taxes in the amount of EUR 2,235 thousand (2004: EUR 1,822 thousand).

(7) FINANCIAL RESULT

in EUR thousand	2005	2004
Net interest income/expense		
Other interest and similar income	1,905	1,698
Interest and similar expenses	(6,658)	(7,036)
	(4,753)	(5,338)
Other financial items		
Other financial income	12,823	9,094
Other financial expenses	(13,745)	(8,975)
	(922)	119
	(5,675)	**(5,219)**

Other financial income and expenses are made up of mainly foreign exchange gains and losses incurred in the course of financing activities of the Group.

(8) INCOME TAXES

in EUR thousand	2005	2004
Current taxes	48,457	44,347
Deferred taxes	570	(2,465)
	49,027	**41,882**

In fiscal year 2005, expenses for current income taxes relating to other reporting periods amounting to EUR 286 thousand (2004: EUR 207 thousand) were recognized. This compares with income relating to other reporting periods totaling EUR 71 thousand (prior year: EUR 702 thousand).

Deferred taxes are calculated on the basis of the tax rates applicable or substantively applicable in the relevant countries at the time of realization. HUGO BOSS AG is subject to a domestic income tax rate of 37.2% (2004: 37.2%). Tax rates abroad range between 0% and 40%.

The following table shows a reconciliation of the anticipated income tax expense that would theoretically result given the application at Group level of the current domestic income tax rate of 37.2% (2004: 37.2%) to the Group's current income tax expense. The domestic income tax rate applied includes a corporate income tax rate (including the German unification solidarity surcharge) of 26.4% and a trade tax rate of 14.8%.

in EUR thousand	2005	2004
Pre-tax result	157,238	130,066
Anticipated income tax	58,492	48,383
Tax effect of non-deductible expenses and tax-exempt income	936	582
Tax rate-related deviation	(10,618)	(8,583)
Tax refunds/back taxes	(917)	(1,107)
Valuation allowance on deferred tax assets	316	1,389
Amortization of goodwill	0	517
Other deviations	818	701
Income tax expenditure carried	49,027	41,882
Income tax load	31.2%	32.2%

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

	2005		2004	
in EUR thousand	**Accruals**	**Deferrals**	**Accruals**	**Deferrals**
Provisions	9,876	(3,410)	5,150	(18)
Loss carryforwards	2,212	0	4,736	0
Inventory measurement	7,709	(3,955)	5,436	(5,454)
Recognition and measurement of non-current assets	4,240	(2,517)	3,869	(1,009)
Receivables measurement	7,930	(1,688)	5,991	(1,191)
Market valuation of financial instruments	0	(73)	388	(174)
Other differences in recognition and measurement	1,654	(176)	2,090	(537)
	33,621	(11,819)	27,660	(8,383)
Valuation allowance	(2,387)	–	(2,672)	–
	31,234	**(11,819)**	**24,988**	**(8,383)**

Expenses for deferred taxes include, in addition to the effects from the origination or the reversal of temporary differences between the carrying amounts in the consolidated financial statements and the related tax base, income arising from changes in the tax rates amounting to EUR 114 thousand (2004: EUR 2,420 thousand) as well as income from the reduction of a valuation allowance previously recognized for deferred taxes amounting to EUR 285 thousand (2004: increase of valuation allowances EUR 2,280 thousand).

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

The valuation allowances for deferred taxes result from temporary differences (2005: EUR 1,233 thousand; 2004: EUR 2,024 thousand) and from unused tax loss carryforwards (2005: EUR 1,154 thousand; 2004: EUR 648 thousand).

(9) MINORITY INTERESTS

The consolidated financial statements contain data on companies in which HUGO BOSS AG holds less than 100% of the equity. In accordance with IAS 27, the related minority interests are reported as a separate component of equity in the consolidated financial statements. Minority interests in the Group's net income are also reported separately.

(10) EARNINGS PER SHARE

Pursuant to IAS 33, the earnings per share (EPS) figure is calculated by dividing the net income or loss for the period by the weighted average number of common shares outstanding during the fiscal year. Neither on December 31, 2005, nor on December 31, 2004, were shares outstanding that could have diluted earnings per share.

	2005	2004
Net income in EUR million	108.2	88.2
Average number of shares outstanding [1]		
Common shares	35,631,144	35,785,794
Preferred shares	34,450,414	34,540,000
EPS common shares in EUR [2]	1.54	1.24
EPS preferred shares in EUR [2]	1.55	1.26

1 Includes effect of share buy back program.

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

NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

in EUR thousand	Property, plant and equipment	Intangible assets	Total fixed assets
Cost of acquisition			
1/1/05	360,481	88,045	448,526
Currency translation effects	11,553	447	12,000
Additions	60,617	17,604	78,221
Disposals	(16,053)	(1,333)	(17,386)
Transfers	720	(720)	0
12/31/05	417,318	104,043	521,361
Depreciation/amortization			
1/1/05	153,396	26,234	179,630
Currency translation effects	5,695	383	6,078
Additions	37,252	4,068	41,320
Disposals	(7,990)	(1,006)	(8,996)
12/31/05	188,353	29,679	218,032
Carrying amount at 12/31/05	**228,965**	**74,364**	**303,329**
Carrying amount at 12/31/04	**207,085**	**61,811**	**268,896**

Land charges exist in conjunction with land and buildings in the amount of EUR 41.4 million (2004: EUR 42.8 million).

(11) INTANGIBLE ASSETS

in EUR thousand	Franchises, trademarks, patents, licenses[1]	Internally developed software	Goodwill	Total
Cost of acquisition				
1/1/05	54,627	5,603	27,815	88,045
Currency translation effects	447	0	0	447
Additions	17,604	0	0	17,604
Disposals	(1,333)	0	0	(1,333)
Transfers	(720)	0	0	(720)
12/31/05	70,625	5,603	27,815	104,043
Amortization				
1/1/05	20,508	3,503	2,223	26,234
Currency translation effects	383	0	0	383
Additions	3,010	1,050	8	4,068
Disposals	(1,006)	0	0	(1,006)
12/31/05	22,895	4,553	2,231	29,679
Carrying amount at 12/31/05	**47,730**	**1,050**	**25,584**	**74,364**
Carrying amount at 12/31/04	**34,119**	**2,100**	**25,592**	**61,811**

1 And similar rights, including licenses.

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

The item “Franchises, trademarks, patents, licenses” includes other assets with indefinite useful lives (particularly trademark rights) in the amount of EUR 21,255 thousand (2004: EUR 19,327 thousand).

(12) PROPERTY, PLANT AND EQUIPMENT

in EUR thousand	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Prepayments made and construction in progress	Total
Cost of acquisition					
1/1/05	104,924	34,718	218,148	2,691	360,481
Currency translation effects	1,672	1,208	8,645	28	11,553
Additions	13,406	2,303	40,003	4,905	60,617
Disposals	(1,598)	(1,319)	(13,054)	(82)	(16,053)
Transfers	516	149	2,232	(2,177)	720
12/31/05	118,920	37,059	255,974	5,365	417,318
Depreciation					
1/1/05	27,066	20,733	105,597	0	153,396
Currency translation effects	739	879	4,077	0	5,695
Additions	4,799	3,032	29,421	0	37,252
Disposals	(284)	(818)	(6,888)	0	(7,990)
12/31/05	32,320	23,826	132,207	0	188,353
Carrying amount at 12/31/05	**86,600**	**13,233**	**123,767**	**5,365**	**228,965**
Carrying amount at 12/31/04	**77,858**	**13,985**	**112,551**	**2,691**	**207,085**

Impairment losses totaling EUR 2,948 thousand (2004: EUR 450 thousand) were recognized for items of property, plant and equipment and shown under “depreciation/amortization” in the consolidated income statement.

FINANCE LEASES

Property, plant and equipment includes land amounting to EUR 4,988 thousand (2004: EUR 4,421 thousand) and operating and office equipment of EUR 3 thousand (2004: EUR 86 thousand) where the Group retains beneficial ownership of the assets in accordance with IAS 17.

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

in EUR thousand	Payable 2006	Payable 2007 to 2010	Payable after 2010
Lease payments	756	3,327	3,171
Discounts	285	1,073	424
Present value	471	2,254	2,747

OPERATING LEASES

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

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

In fiscal year 2005, rental expenses in the amount of EUR 49,843 thousand (2004: EUR 40,655 thousand) were recognized for operating leases. Contingent rents amounted to EUR 4,919 thousand (2004: EUR 2,696 thousand).

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

As in 2004, the Group did not generate substantial revenue from subleases in the year under review.

(13) OTHER ASSETS

in EUR thousand	2005	2005 thereof: short-term	2005 thereof: long-term	2004	2004 thereof: short-term	2004 thereof: long-term
Trade receivables	10,340	0	10,340	25,413	0	25,413
Tax claims and prepayments	18,260	18,260	0	24,346	21,878	2,468
Other assets	46,188	30,528	15,660	26,588	16,443	10,145
	74,788	**48,788**	**26,000**	**76,347**	**38,321**	**38,026**

Other assets mainly include trade receivables and rent deposits, along with positive market values in financial derivatives totaling EUR 740 thousand (2004: EUR 4,262 thousand). Other assets also include advance payments totaling EUR 15,490 thousand (2004: EUR 2,911 thousand).

Other assets also include a limited partner's share in GRETANA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt D, Grünwald in the amount of EUR 10 thousand (prior year: EUR 0 thousand). The purpose of this company is to establish a new administrative building that is to be leased out to HUGO BOSS AG.

(14) INVENTORIES

in EUR thousand	2005	2004
Finished goods and merchandise	204,918	187,502
Raw materials and supplies	49,226	52,063
Work in progress	11,533	11,079
Payments on account	0	49
	265,677	**250,693**

The carrying amount of inventories recognized at the lower net realizable value is EUR 103,064 thousand (2004: EUR 80,745 thousand).

(15) TRADE RECEIVABLES

	2005			2004		
in EUR thousand		**thereof: short-term**	**thereof: long-term**		**thereof: short-term**	**thereof: long-term**
Trade receivables	**156,266**	**145,926**	**10,340**	**153,797**	**128,384**	**25,413**

On December 31, 2005, the allowance for doubtful accounts amounted to EUR 30,697 thousand (2004: EUR 37,804 thousand).

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

(16) CASH AND CASH EQUIVALENTS

in EUR thousand	2005	2004
Balances with banks and other financial assets	29,374	50,338
Checks/ec-cash	890	449
Cash in hand	664	315
	30,928	**51,102**

EQUITY

Development of equity is shown in the statement of changes in equity on pp. 136 and 137.

(17) SUBSCRIBED CAPITAL

As of December 31, 2005, the share capital of HUGO BOSS AG totaled EUR 70,400,000. The share capital is divided into 70,400,000 no-par value bearer shares and can be broken down as follows:

in EUR thousand	2005
Common shares 35,860,000 shares	35,860
Non-voting preferred shares 34,540,000 shares	34,540
	70,400

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

(18) TREASURY SHARES

HUGO BOSS AG bought back a total of 153,486 common shares at an average price of EUR 23.92 and 237,167 preferred shares at an average price of EUR 26.66 during the period from January to December 2005.

The number of treasury shares changed as follows:

	2005	2004
Common shares	277,751	124,265
Share of subscribed capital in %	0.4	0.2
Preferred shares	237,167	0
Share of subscribed capital in %	0.3	0

(19) CAPITAL RESERVE

The capital reserve contains premiums on the issuance of shares.

(20) RETAINED EARNINGS

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

(21) ACCUMULATED OTHER EQUITY

Accumulated other equity contain adjustment losses arising from the translation of foreign subsidiaries' financial statements of EUR 7,372 thousand (2004: EUR 22,748 thousand) and the effects from the measurement of financial instruments after taxes, neither of which is recognized in income. Deferred tax assets not recognized in the income statement amount to EUR 425 thousand (2004: deferred tax liabilities EUR 788 thousand).

(22) DIVIDENDS

In accordance with the German Stock Corporation Act (AktG), the dividend payout to shareholders is based on the net retained earnings for the year as reported in the consolidated financial statements of HUGO BOSS AG. Net retained earnings for 2005 of HUGO BOSS AG to be proposed for distribution at the Annual Shareholders' Meeting is EUR 70.2 million. This corresponds to EUR 1.00 per common share and EUR 1.01 per preferred share.

In 2005, a dividend for fiscal 2004 was paid out for the shares in issue in the amount of EUR 59.2 million (in 2004 for fiscal 2003: EUR 55.2 million). This corresponds to EUR 0.84 (2004: EUR 0.78) per common share and EUR 0.85 (2004: EUR 0.79) per preferred share.

(23) PROVISIONS

in EUR thousand	2005	2004
Provisions for pensions	18,581	13,966
Other non-current provisions	12,436	10,810
Non-current provisions	**31,017**	**24,776**
Current provisions	**36,405**	**26,444**
	67,422	**51,220**

Other provisions amounting to EUR 48,841 thousand (prior year: EUR 37,254 thousand) comprise current provisions of EUR 36,405 thousand (prior year: EUR 26,444 thousand) and other non-current provisions of EUR 12,436 thousand (prior year: EUR 10,810 thousand).

Other provisions changed as follows during fiscal 2005:

in EUR thousand	Status Jan. 1, 2005	Currency trans-lation	Addition	Use	Release	Status Dec. 1, 2005
Provisions for personnel expenses	21,265	318	15,884	(11,707)	(603)	25,157
Costs of litiga-tion, pending and impending legal disputes	7,484	80	1,656	(1,020)	(244)	7,956
Other provisions	8,505	5	19,274	(7,264)	(4,792)	15,728
	37,254	**403**	**36,814**	**(19,991)**	**(5,639)**	**48,841**

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

Overall, the Company expects that EUR 12,436 thousand (2004: EUR 10,810 thousand) of the provisions for personnel expenses will become due for payment after more than 12 months.

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

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

(24) PROVISIONS FOR PENSIONS

in EUR thousand	2005	2004
Provisions for pensions	15,497	11,065
Provisions for similar obligations	3,084	2,901
	18,581	**13,966**

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

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

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

in EUR thousand	2005	2004
Change in present value of benefit obligation		
Present value of Benefit obligation on January 1	14,727	22,247
Service cost	917	1,137
Interest cost	708	1,368
Actuarial gains/losses	3,749	1,086
Benefits paid	(345)	(363)
Other decrease in benefit obligation	0	(10,748)
Present value of Benefit obligation on December 31	19,756	14,727
Change in plan assets		
Fair value of plan assets on January 1	3,931	3,987
Return on plan assets	203	217
Benefits paid	(132)	(273)
Other changes in plan assets	540	0
Fair value on plan assets on December 31	4,542	3,931
Funding status of the benefits funded by plan assets	**15,214**	**10,796**
Pensions funded by provisions	283	269
Provisions for pensions	**15,497**	**11,065**

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

Pension obligations have been determined based on the following assumptions:

Actuarial assumptions	2005	2004
Discount rate	4.00%	4.90%
Rate of compensation increase	1.75%	1.75%
Expected rate of return on plan assets	5.25%	5.25%

Pension obligations for Germany were for the first time computed using the biometric principles according to the mortality tables 2005 G compiled by Prof. Dr. Klaus Heubeck.

(25) FINANCIAL LIABILITIES

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

in EUR thousand	2005	2004
Long-term financial liabilities	82,333	114,581
Short-term financial liabilities	55,679	91,294
	138,012	**205,875**

in EUR thousand	2005	With a remaining term up to 1 year	2004	With a remaining term up to 1 year
Due to banks	127,999	55,196	195,722	89,963
Other financial liabilities	10,013	483	10,153	1,331
	138,012	**55,679**	**205,875**	**91,294**

Other financial liabilities include liabilities from finance leases totaling EUR 5,472 thousand (2004: EUR 5,226 thousand).

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

DUE TO BANKS

Remaining term	Weighted average interest rate	Carrying amount 2005 EUR thousand	Weighted average interest rate	Carrying amount 2004 EUR thousand
up to 1 year	2.29%	55,196	2.46%	89,963
1 to 5 years	3.35%	39,284	3.04%	70,813
more than 5 years	5.67%	33,519	5.96%	34,946

OTHER FINANCIAL LIABILITIES

Remaining term	Weighted average interest rate	Carrying amount 2005 EUR thousand	Weighted average interest rate	Carrying amount 2004 EUR thousand
up to 1 year	5.40%	483	5.56%	1,331
1 to 5 years	5.26%	2,310	5.23%	2,043
more than 5 years	5.12%	7,220	5.12%	6,779

(26) OTHER LIABILITIES

in EUR thousand	2005	2005 thereof: short-term	2005 thereof: long-term	2004	2004 thereof: short-term	2004 thereof: long-term
Liabilities to affiliated companies	0	0	0	1,013	1,013	0
Other liabilities	60,798	38,486	22,312	53,263	34,709	18,554
from taxes	[14,115]	[14,115]	0	[8,754]	[8,754]	0
from social security	[7,410]	[7,410]	0	[5,571]	[5,571]	0
	60,798	**38,486**	**22,312**	**54,276**	**35,722**	**18,554**

Liabilities to affiliated companies include trade payables in the amount of EUR 0 thousand (2004: EUR 1,013 thousand).

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

Other liabilities also include the negative market values of financial instruments totaling EUR 1,500 thousand (2004: EUR 4,201 thousand).

(27) TRADE PAYABLES

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

2004 in EUR thousand	With a remaining term up to 1 year	With a remaining term 1 to 5 years	With a remaining term of more than 5 years	Total
Trade payables	66,308	0	0	66,308

OTHER DISCLOSURES

(28) CONTINGENT LIABILITIES

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

in EUR thousand	2005	2004
Liabilities from the negotiation and transfer of bills	0	253
Contingent liabilities from the provision of collateral for third-party liabilities	1,315	588
secured by mortgages	0	[191]
Other contingent liabilities	0	4,538
	1,315	**5,379**

Other contingent liabilities for fiscal 2004 included a potential future tax charge. As the applicable tax laws have since changed, the Company now expects a tax payment of EUR 4.0 million. As a result, this amount was included in the tax expenses for fiscal 2005.

(29) OTHER FINANCIAL OBLIGATIONS

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

2004 in EUR thousand	Due in 2005	Due 2006 to 2009	Due after 2009	Total
Sum of future minimum lease payments (operating leases)	45,606	161,403	86,681	293,690
Other obligations	349	172	48	569
	45,955	**161,575**	**86,729**	**294,259**
Purchase commitment for investments				
Property, plant and equipment	2,441			2,441
Intangible fixed assets	5,990			5,990
	8,431	**0**	**0**	**8,431**

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

(30) HEDGING POLICY AND FINANCIAL DERIVATIVES

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

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

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

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

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

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

These countries include the U. S., Japan, the United Kingdom, Switzerland, Canada and Australia. The currency forwards and currency options generally have terms to maturity ranging from 12 to 15 months from the contract date; none of the terms exceed 18 months. For the most part those cash flows result from intercompany sales anticipated to occur within 18 months.

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

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

	2005		2004	
in EUR thousand	Nominal amount	Fair values	Nominal amount	Fair values
Currency hedging contracts	100,940	(949)	136,520	(9)
Interest hedging contracts	29,598	189	25,730	70
	130,538	**(760)**	**162,250**	**61**

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

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

Other assets or liabilities include the market value of transactions designed to hedge interest rate risks with a value of EUR 189 thousand (2004: EUR 70 thousand).

The disclosed market values of derivative financial instruments include a negative amount of EUR 358 thousand (prior year: EUR 977 thousand) from assets classified as financial assets held for trading.

The negative effects of the fair value measurement of derivative financial instruments totaling EUR –690 thousand (2004: positive effects of EUR 1,497 thousand), after deduction of deferred taxes, were taken directly to equity as of December 31, 2005.

(31) NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

Cash flow from operating activities include interest received in the amount of EUR 1,905 thousand (2004: EUR 1,698 thousand) and interest paid in the amount of EUR 6,658 thousand (2004: EUR 6,638 thousand). Income tax payments amount to EUR 33,916 thousand (2004: EUR 39,780 thousand).

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

(32) NOTES ON SEGMENT REPORTING

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

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

For purposes of product segmentation, the BOSS Man, HUGO and BALDESSARINI brands are consolidated under the menswear segment.

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

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

(33) RELATED PARTY DISCLOSURES

As part of its ordinary activities, the HUGO BOSS Group also receives goods and services from related parties. These transactions are based on the arm's length principle.

During fiscal 2005, related parties in the Marzotto Group provided goods and services (in particular fabric supply) amounting to EUR 50,783 thousand (2004: EUR 22,952 thousand). As of December 31, 2005, liabilities to Marzotto Group companies came to EUR 986 thousand (2004: EUR 1,013 thousand).

Members of the Supervisory Board received royalties totaling EUR 813 thousand (2004: EUR 927 thousand) and compensation for other services rendered (in particular consulting) totaling EUR 200 thousand (2004: EUR 232 thousand).

(34) SUPERVISORY BOARD AND MANAGING BOARD

The members of the Supervisory Board and Managing Board are listed on pp. 012 to 014.

Remuneration for members of the Managing Board in fiscal 2005 totaled EUR 5,086 thousand (2004: EUR 3,536 thousand). Of this amount, EUR 1,798 thousand (2004: EUR 1,818 thousand) reflect the fixed components and EUR 3,288 thousand (2004: EUR 1,718 thousand) reflect the variable components.

Option rights granted to members of the HUGO BOSS AG Managing Board under the Stock Appreciation Rights Program were as follows:

	Tranche no. 1	Tranche no. 2	Tranche no. 3	Tranche no. 4	Tranche no. 5	Total
Date of Issue	July 2001	March 2002	February 2003	February 2004	February 2005	–
Number of option rights outstanding on December 31, 2005	–	67,500	90,000	90,000	240,000	487,500
Strike Price (EUR)		23.63	9.71	16.93	25.01	–
Value of option rights held by Managing Board						
December 31, 2004 (EUR thousand)	5	216	2,345	1,244	–	3,810
December 31, 2005 (EUR thousand)	–	1	1,805	1,172	1,517	4,495

For the members of the Managing Board, provisions for pension obligations were recognized in the amount of EUR 4,599 thousand (2004: EUR 4,465 thousand).

The Supervisory Board received total remuneration of EUR 1,152 thousand for its services (2004: EUR 983 thousand). This includes a variable component of EUR 618 thousand (2004: EUR 595 thousand).

Pension obligations to former members of the Managing Board increased by EUR 3,384 thousand to EUR 7,859 thousand.

Post-employment benefits for members of the Managing Board amounted to EUR 1,343 thousand.

The members of the Supervisory Board own a total of 0.27% of the shares issued by HUGO BOSS AG. The members of the Managing Board together own less than 0.01% of the Company's shares.

(35) STOCK APPRECIATION RIGHTS PROGRAM

During 2001, HUGO BOSS AG introduced a Stock Appreciation Rights Program for Managing Board members and second-tier executives.

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

The Stock Appreciation Rights Program has a term of four years. After the initial holding period of two years, a two-year exercise period commences. The participation rights may be exercised in the event growth in market capitalization of HUGO BOSS AG exceeds MDAX growth by five percentage points (a criterion of the program) upon expiration of the holding period or during the exercise period.

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

The Stock Appreciation Rights Program developed as follows during 2005 and 2004:

	2004	2005
Number of option rights at Jan. 1	908,150	1,373,050
Newly granted	513,800	730,400
Expired/exercised option rights	(48,900)	(471,000)
Number of option rights at Dec. 31	1,373,050	1,632,450

Provisions are recognized to cover anticipated future claims from the Stock Appreciation Rights Program. Based on the Black-Scholes option pricing model, the value of the stock appreciation rights issued is calculated based on current market parameters, and then allocated to the provisions on a pro rata basis until the end of the holding period. For fiscal 2005, this resulted in expenses of EUR 9,609 thousand (2004: EUR 5,525 thousand) for the Stock Appreciation Rights Program.

(36) EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date (December 31, 2005), no events occurred that had a material impact on the Group's financial performance or financial position in fiscal 2005.

The consolidated financial statements and the Group management report of HUGO BOSS AG were authorized for issue to the Supervisory Board by the Managing Board on March 9, 2006. The consolidated financial statements were published on March 23, 2006.

(37) CORPORATE GOVERNANCE CODE

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

(38) AUDITOR'S FEES

The auditor's fees expensed in fiscal 2005 amount to EUR 263 thousand, EUR 259 thousand of which relates to audits of companies included in the consolidated financial statements and EUR 4 thousand to other audit services.

The auditor did not provide any tax consulting, valuation or other non-audit services.

FURTHER INFORMATION

INFORMATION CONCERNING THE MAJORITY SHAREHOLDER

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

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

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

Metzingen, October 2005 The Managing Board

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

“We hereby inform you pursuant to section 21 paragraph 1 and section 22 paragraph 1 sentence 1 no. 1 of the German Securities Trading Act that our share of voting rights in HUGO BOSS AG fell short of the threshold of 75%, 50%, 25%, 10% and 5% on July 1, 2005, and now amounts to 0.00%.

All voting rights held hitherto were attributed to us according to section 22 paragraph 1 sentence 1 no. 1 of the Securities Trading Act.”

Metzingen, July 2005 The Managing Board

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

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

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

Metzingen, July 2005 The Managing Board

FURTHER INFORMATION

ON SUPERVISORY BOARD AND MANAGING BOARD MEMBERS

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

Gert Bauer	ElringKlinger AG	Dettingen/Erms, Germany
Philippe Bouckaert	Banque d'Orsay[3]	Paris, France
	Eurosofac	Paris, France
	Finanziaria Canova S. p. A.	Milan, Italy
Andrea Donà dalle Rose	Marzotto S.p.A.	Milan, Italy
	Industrie Zignago Santa Margherita S. p. A.[3]	Fossalta di Portogruaro, Italy, until September 21, 2005
	Santa Margherita S. p. A.[2]	Fossalta di Portogruaro, Italy, until September 23, 2005
	Kettmeir S. p. A.[2]	Caldano, Italy, until September 23, 2005
	Cantine Torressella S. r. l.[2]	Fossalta di Portogruaro, Italy, until September 23, 2005
	S. M. Tenimenti Pile e Lamole e Vistarenni S. r. l.[2]	Gaiole in Chianti, Italy, until September 23, 2005
	Vincenzo Zucchi S. p. A.	Milan, Italy
	Jolly Hotels S. p. A.	Valdagno, Italy, since October 12, 2005
	Cimas S. p. A.	Ponte Felcino, Italy
Antonio Favrin	Valentino S. p. A.[2]	Milan, Italy
	Marzotto S. p. A.[2]	Milan, Italy
	Marzotto GmbH	Frankfurt, Germany
	Vincenzo Zucchi S. p. A.	Milan, Italy
	Mascioni S. p. A.	Milan, Italy
	Industrie Zignago Santa Margherita S. p. A.[2]	Fossalta di Portogruaro, Italy, until September 21, 2005
	Zignago Vetro S. p. A.	Fossalta di Portogruaro, Italy, until September 26, 2005
	A. I. F. – Attività Industriali Friuli S. r. l.[2]	San Vito al Tagliamento, Italy, until June 1, 2005
	Vetri Speciali S. p. A.[2]	Trento, Italy, until September 26, 2005

Antonio Favrin	Santa Margherita S.p.A	Fossalta di Portogruaro, Italy, until September 26, 2005
	Ca'del Bosco S.p.A.	Erbusco, Italy, until April 29, 2005
	Finanziaria Canova S.p.A.	Milan, Italy
	Linificio e Canapificio Nazionale S.p.A.[3]	Fara Gera d'Adda, Italy
	Vetrerie Venete S.p.A.[2]	Verona, Italy, until June 1, 2005
	Nord Vetri S.p.A.	Pergine Valsugana, Italy, until June 1, 2005
	Jolly Hotels S.p.A	Valdagno, Italy, since October 12, 2005
	Portogruaro Interporto S.p.A.[2]	Portogruaro, Italy, since July 29, 2005
	Faber Finanziaria S.r.l.	Milan, Italy
	Canova Partecipazioni S.r.l.[2]	Milan, Italy, since October 3, 2005
	Joker Partecipazioni S.r.l.[2]	Milan, Italy, since October 12, 2005
Jean F. de Jaegher	Bremer Woll-Kämmerei AG[3]	Bremen, Germany
Reinhold L. Mestwerdt	Finanziaria Canova S.p.A.	Milan, Italy
	M CAP Finance GmbH & Co. KG	Frankfurt, Germany
Michele Norsa	V.F.G. Distribuzione S.p.A.[2]	Milan, Italy
	Valentino S.p.A.	Milan, Italy
	V.F.G. France S.a.S.[2]	Paris, France
	V.F.G. USA Inc.[2]	New York, NY, USA
	Italfashion S.A.[2]	Mendrisio, Switzerland
	Italfashion U.K. Ltd.	London, United Kingdom
	Valentino Fashion Group Espana S.L.[2]	Madrid, Spain
	Italfashion GmbH	Munich, Germany

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

Michele Norsa	V. F. G. Hong Kong Ltd.	Hong Kong, China
	Givo Limited	Gurgaon, India
	Valentino Couture S. a. S. [2]	Paris, France
	Valentino U. S. A. Inc. [2]	Wilmington, DE, USA
	Valentino Spagna S. L. [2]	Madrid, Spain
	VB Fashions PTE Ltd.	Singapore, Singapore
	V. S. Limited	Hong Kong, China
	Valentino Boutique Japan Ltd.	Tokyo, Japan
Dario Federico Segre	Marzotto S. p. A.	Valdagno, Italy
	Filos Partecipazioni Finanziarie S. r. l. [2]	Milan, Italy
	Istifid S. p. A.	Milan, Italy
	Eidos Partners S. r. l.	Milan, Italy
	Aree Urbane S. r. l.	Milan, Italy
	Aperta Sgr	Milan, Italy
	Valdani Vicari e Associati	Milan, Italy
	Gefran S. p. A.	Provaglio d'Iseo, Italy
	Valentino Fashion Group S. p. A.	Milan, Italy
	Machi S.r. l.	Milan, Italy
	Canova Partecipazioni S. r. l.	Milan, Italy
	Joker Partecipazioni S. r. l.	Milan, Italy
	Jolly Hotels S. p. A.	Valdagno, Italy
Dr. Giuseppe Vita	Allianz Lebensversicherung AG	Stuttgart, Germany
	Riunione Adriatica di Sicurtà (RAS) S. p. A. [2]	Milan, Italy
	Axel Springer AG [2]	Berlin, Germany
	Schering AG [2]	Berlin, Germany
	Techosp S. p. A.	Milan, Italy
	Vattenfall Europe AG	Berlin, Germany
	Marzotto S. p. A.	Valdagno, Italy
	Medical Park AG	Bad Wiessee, Germany, until December 31, 2005
	Barilla S. p. A.	Parma, Italy, since June 24, 2005

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

Dr. Bruno Sälzer	Beiersdorf AG	Hamburg, Germany

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

Metzingen, March 9, 2006

HUGO BOSS AG
The Managing Board

GENERAL INFORMATION

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

HUGO BOSS AG
Investor Relations
Dieselstrasse 12
72555 Metzingen
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The financial statements of HUGO BOSS AG are published in the German Federal Gazette (Bundesanzeiger) and filed with the Commercial Registry at the Reutlingen Local Court.

Metzingen, March 9, 2006

HUGO BOSS AG
The Managing Board

Dr. Bruno Sälzer
Dr. Werner Lackas
André Maeder

FORWARD-LOOKING STATEMENTS

CONTAIN RISKS

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

CONTACTS

AT HUGO BOSS AG

FINANCIAL CALENDER

March 23, 2006	Annual Press and Analyst Conference in Metzingen
April 27, 2006	Report on the First Quarter of 2006
May 04, 2006	Annual Shareholders' Meeting in Stuttgart
July 27, 2006	Report on the First Half of 2006
Nov. 02, 2006	Report on the Third Quarter of 2006

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FROM A TO Z

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