HUGO BOSS

ANNUAL REPORT
FINANCIAL STATEMENTS 2006
OF HUGO BOSS AG

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FINANCIAL STATEMENTS 2006
AND MANAGEMENT REPORT OF HUGO BOSS AG

HUGO BOSS FINANCIAL STATEMENTS 2006 AND MANAGEMENT REPORT

MANAGEMENT REPORT

FOR FISCAL YEAR 2006 AND OUTLOOK FOR THE YEARS 2007 AND 2008

HUGO BOSS AG

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

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

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

The share capital of HUGO BOSS AG amounts to EUR 70.4 million and is divided into 35,860,000 common shares (50.9%) and 34,540,000 preferred shares (49.1%) a share in the issued share capital of EUR 1.00 per common or preferred share. The shares of HUGO BOSS AG are bearer shares. There are no legal or statutory restrictions on voting rights or transfer of shares; the Managing Board is not aware of any agreements between shareholders to such effect.

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

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

Pursuant to Section 119 Paragraph 1 Sentence 5 of the German Stock Corporation Act, any changes to the Articles of Association must be approved by the Annual Shareholders' Meeting. Unless otherwise mandated by the German Stock Corporation Act, resolutions are approved pursuant to Section 17 Sentences 2 and 3 of the Articles of Association by simple majority of the votes cast and – insofar as a majority of the capital is required to be represented for approving a resolution – by simple majority of the share capital represented upon voting on the resolution. According to Section 20 of the Articles of Association, the Supervisory Board is authorized to resolve on modifications to the Articles of Association that affect the wording only.

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

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

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

BRAND OVERVIEW

BOSS HUGO BOSS	Menswear Womenswear Accessories	**BOSS Black** Comprehensive spectrum of elegant business ensembles, casual sports clothing and evening wear.
BOSS HUGO BOSS SELECTION	Menswear Accessories	**BOSS Selection** Premium tier of the BOSS brand, implementing best materials and finest workmanship.
BOSS HUGO BOSS	Menswear Womenswear Accessories	**BOSS Orange** Casual fashion for men and women, unusual materials, vibrant colors and intricate details.
BOSS HUGO BOSS	Menswear Sports Accessories	**BOSS Green** Fashion-oriented collection that promises optimum performance for sports and fashion.
HUGO HUGO BOSS	Menswear Womenswear Accessories	**HUGO** Self-confident men’s and women’s collection that combines creativity and individuality into an unconventional and avant-garde fashion.

INTERNAL CONTROL SYSTEM OF THE HUGO BOSS AG

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

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

KEY PERFORMANCE INDICATORS AND KEY FIGURES

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

1 Net current assets

2 EBIT/Net capital invested (average)

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

FISCAL 2006 IN REVIEW

GLOBAL ECONOMIC DEVELOPMENTS

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

Despite the slight decline in domestic economic activity in the USA, the IMF anticipates the gross national product for 2006 of the world's largest economy to increase to 3.4%. While real estate markets in the U.S. slumped, private consumption continued to rise.

The euro zone also gained strength in the previous year according to estimates by the OECD, which raised its forecast for economic growth in the euro region for 2006 from 2.2% to 2.7%. This growth will be primarily driven by strong domestic demand, higher corporate capital expenditure and a decreasing unemployment rate.

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

For the Asian region, the major German economic research institutes again predicted significant economic growth in their fall surveys conducted in October 2006. For Japan, the OECD is forecasting growth of 2.1% in the gross domestic product (2005: 1.9%), supported by a rise in corporate capital expenditure based on improved financing conditions and increasing corporate profits.

For the People's Republic of China, the OECD is projecting a continuation of strong economic growth. Experts anticipate a rise in the gross domestic product of 10.5% for this upcoming economy. India is expected to register growth rates of 8.3% for 2006, according to the OECD.

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

SECTOR DEVELOPMENT

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

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

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

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

DEVELOPMENT OF SALES

SALES

HUGO BOSS AG generated sales of EUR 758.2 million in fiscal 2006 (2005: EUR 692.4 million). This excellent performance resulted from growth in all sales regions.

Sales via subsidiaries accounted for EUR 391.0 million (2005: EUR 338.6 million), sales via trading partners located in Germany for EUR 167.0 million (2005: EUR 159.7 million) and sales via foreign trading partners accounted for EUR 103.4 million (2005: EUR 101.7 million). For providing efficient services in the region Eastern Europe and in Austria, a subsidiary in Zug, Switzerland, was founded in fiscal 2006. Effective December 1, 2006 sales for these regions are reflected as intercompany sales with this subsidiary in the accounts of HUGO BOSS AG.

While the German fashion market as a whole improved just slightly by 1% in comparision with 2005, HUGO BOSS outperformed the market. Total sales in Germany rose by 4.7% to EUR 267.4 million (2005: EUR 255.5 million).

BOSS Womenswear made a significant contribution to the pleasant sales trend in the 2006 reporting year. The two womenswear lines, BOSS Black Womenswear and the leisure-oriented BOSS Orange Womenswear line that was launched on the market in fiscal 2006, increased by a total of 45,6% to EUR 33.3 million (2005: EUR 22.9 million).

Sales in the rest of Europe excluding Germany increased by 10.5% in fiscal 2006 to a total of EUR 352,3 million (2005: EUR 318.8 million). Increasing sales were seen especially in Spain, Great Britain/Ireland and Benelux.

In North and South America sales growth continued by pleasant 26.8% to EUR 66.4 million (2005: EUR 52.3 million), which was mainly due to the higher sales in the U.S.

In the growth regions of Asia/other regions, HUGO BOSS AG achieved sales growth of 9.7% to EUR 72.1 million (2005: EUR 65.8 million), primarily due to the positive development in Australia and the People´s Republic of China.

Sales denominated in foreign currencies from significant subsidiaries rose by 17.1% and sales increased also 17.1% on a currency-adjusted basis.

BRANDS

BOSS MENSWEAR

The share of BOSS Menswear in total sales of the HUGO BOSS AG was 76.6% in fiscal 2006 (2005: 78.8%). Despite just slightly increasing growth in some fashion markets, particularly in Germany, sales continued to grow in fiscal 2006 by 6.5% to a total of EUR 580.9 million (2005: EUR 545.4 million).

In Germany as well as abroad, BOSS Menswear also clearly outperformed other major fashion markets. The trend toward high-end leisure fashion continued in 2006.

BOSS WOMENSWEAR

The sustained upward trend of BOSS Womenswear continued in fiscal 2006 with sales growth of 47.3%. In addition to the successful launch of BOSS Orange Womenswear in fiscal 2006, which contributed EUR 17.5 million (2005: EUR 0.2 million) to sales growth, sales of BOSS Black Womenswear rose by 20.4% to EUR 78.3 million (2005: EUR 65.0 million).

HUGO

HUGO, the fashion brand in the HUGO BOSS brand portfolio, is marketed in 48 countries – abroad via subsidiaries. HUGO increased sales by 10.2% to EUR 79.7 million in the year under review (2005: EUR 72.3 million) and succeeded in expanding on the brand's position in key fashion markets.

BALDESSARINI

The successful market launch of BOSS Selection has enabled HUGO BOSS to cover the high-end segment in its brand portfolio. For this reason, the textile activities of the BALDESSARINI brand were sold off as of September 1, 2006. This led to a decrease in sales of 81.3% to EUR 1.8 million (2005: EUR 9.7 million).

EARNINGS PERFORMANCE

GROSS MARGIN

The gross margin (net sales minus material consumption incl. changes in inventories; in % of net sales) increased by 2.0 percentage points in 2006 to 39.3% compared to previous year (2005: 37.3%), mostly attributable to additional improvements in global purchasing structures.

OTHER OPERATING INCOME AND EXPENSES

Compared to the previous year, other operating expenses increased by EUR 33.6 million to a total of EUR 229.3 million. Other operating income rose by EUR 29.2 million to EUR 112.3 million compared to previous year.

The increase in other operating expenses is mainly due to higher selling expenses, amounting to EUR 153.1 million (2005: EUR 127.5 million). These were primarily caused by marketing expenses that had to be passed on to affiliated companies (2006: EUR 39.8 million, 2005: EUR 26.2 million) and higher royalty payments to HUGO BOSS Trade Mark Management GmbH & Co. KG, in the amount of EUR 46.9 million (2005: EUR 42.2 million).

Furthermore, accounting for risk reserve of EUR 5.2 million contributed to this increase in other operating expenses.

Operating expenses increased by 7.7% (2006: EUR 22.0 million, 2005: EUR 20.5 million), administrative expenses rose by 8.9% (2006: EUR 32.8 million, 2005: EUR 30.1 million).

A positive effect of EUR 3.1 million was recognised due to the decrease of allowances on receivables against affiliated companies.

The increase in other operating expenses was partially offset by an increase in other operating income, largely as a result of transferring marketing and administrative expenses to affiliated companies.

Moreover, gains from the sale of fixed assets (2006: EUR 5.3 million, 2005: EUR 0.6 million), primarily the sale of an investment in an affiliated company to the HUGO BOSS International B.V., and from the release of provisions (2006: EUR 4.1 million, 2005: 1.9 million) contributed to the increase of the other operating income.

PERSONNEL EXPENSES

Personnel expenses rose by 14.7% to EUR 122.0 million (2005: EUR 106.3 million) over the prior-year period. The increase was due to the rise in share price of HUGO BOSS AG shares resulting in higher expenses for the stock appreciation rights program along with a growing number of employees in logistics, and in the newly launched BOSS Orange Womenswear product line as well as due to the general increase in business volume in fiscal 2006.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization of fiscal 2006 rose by 20.7% to EUR 13.5 million compared to fiscal 2005. This development results from higher investments in software (especially SAP AFS) as well as factory and office equipment in fiscal 2006 and former periods.

INCOME FROM INVESTMENTS

Income from investments is mostly attributable to the affiliate HUGO BOSS Trade Mark Management GmbH & Co. KG. As a result of higher business volume of the HUGO BOSS Group as well as an increased turnover with third party licensees, royalty income of HUGO BOSS Trade Mark Management GmbH & Co. KG rose by 7.6% to EUR 65.2 million.

INTEREST INCOME AND EXPENSES

In contrast to stable interest income compared to previous year, interest expenses rose due to higher financial liabilities against affiliated companies – on an average of fiscal 2006.

EXPENSES FROM COMPENSATING LOSSES

Expenses from compensating losses accounted for EUR 1.7 million (2005: EUR 0.6 million) resulting from the compensation of the losses incurred at HUGO BOSS Beteiligungsgesellschaft mbH, Metzingen, and HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen.

TAXES

In 2006, the tax rate was 23.9%, which is 4.2 percentage points below previous years ratio. The deviation is attributable to the profit realisation from income tax receivables (EUR 4.5 million) which became due in late fiscal 2006 – according to a change in income tax legislation.

NET INCOME

Net income increased from EUR 60.2 million to EUR 77.8 million due to the effects described above.

FINANCIAL MANAGEMENT AND FINANCIAL POSITION

Together with approved credit lines, HUGO BOSS AG has sufficient liquidity at its disposal to finance investments and growth. Group companies are financed either by utilizing liquidity surpluses from other corporate units in cash pools or through Group borrowings. This internal financing mechanism serves to minimize debt finance volumes of the HUGO BOSS Group and positively impacts net interest result.

In addition, the Group used bank credit lines to cover short-term, especially seasonal, financial requirements as well as liquidity reserves.

The conditions for short-term bank credit lines are based on the creditworthiness of the HUGO BOSS AG as established by internal bank rankings. The HUGO BOSS AG enjoys favourable conditions in the financial markets due to a very good to good credit rating.

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

The methods employed by the HUGO BOSS Group for hedging against exchange rate fluctuations are explained on page 28.

Cash and cash equivalents increased to EUR 5.4 million in fiscal 2006 (2005: EUR 1.8 million), financial liabilities due to banks accounted for EUR 51.5 million (December 31, 2005: EUR 1.7 million).

In fiscal 2006, additional financial liablities due to banks were utilized mainly for investments in intangible assets and property, plant and equipment (EUR 33.3 million), for the buyback of own shares (EUR 19.0 million), for higher inventories (EUR 17.6 million) and for increasing loans granted to affiliated companies (EUR 14.9 million after deduction of loan repayments).

Overall cash flow from operating activities was EUR 89.4 million in fiscal 2006 (2005: EUR 119.0 million), mainly from the effects described above along with the rise of other provisions and tax provisions amounting to EUR 20.6 million.

In fiscal 2006, EUR 36.1 million (2005: EUR 24.5 million) was spent for investments, EUR 70.2 million (2005: 59.2 million) for dividend distribution as well as EUR 19.0 million (2005: EUR 10.0 million) for the share buyback program.

FINANCIAL POSITION

Intangible Assets increased from EUR 23.2 million to EUR 33.3 million, chiefly as a result of the continued development of key IT projects of strategic significance.

Property, plant and equipment except investments for factory and office equipment changed slightly (December 31, 2006: EUR 59.7 million, December 31, 2005: EUR 51.2 million). Investments for factory and office equipment increased by EUR 9.9 million to EUR 39.6 million, particularly due to the completion of the new administration building in Metzingen.

Shares in affiliated companies of major importance include HUGO BOSS Internationale Beteiligungs-GmbH, which holds the shares in the foreign holding companies of the HUGO BOSS Group, as well as HUGO BOSS Trade Mark Management GmbH & Co. KG as the owner of the Group´s trademark rights.

The change in shares in fiscal 2006 is mainly due to the sale of the 10% share in HUGO BOSS Benelux B.V. to HUGO BOSS International B.V., Netherlands, as well as the sale of the textile business of the BALDESSARINI brand.

Due to seasonal delivery effects and an overall increasing business volume, inventories amounted to EUR 123.0 million (2005: EUR 105.4 million). Despite this, inventory aging could be further improved.

Trade receivables again declined compared to previous year (2006: EUR 8.4 million, 2005: 11.8 million), mainly due to the HUGO BOSS Group internal transfer of third party receivables with customers in Eastern Europe and Austria and efficient receivables management. Receivables with affiliated companies rose affected by the increase of a loan granted to a subsidiary in Switzerland. Other assets went up by EUR 10.9 million primarily caused by tax receivables and assets held in insurance policies dedicated to cover pension liabilities.

The Company held own shares in the amount of EUR 31.1 million (2005: EUR 12.1 million), which is 1.57% (December 31, 2005: 0.73%) of the overall shares.

As of December 31, 2006 HUGO BOSS AG had equity of EUR 694.5 million (December 31, 2005: EUR 687.0 million). Therefore, the equity-to-assets ratio was 70.8% (December 31, 2005: 75.2%).

Pension reserve increased because of additional potential beneficiaries as well due to the application of deferred compensation. Tax provisions declined from EUR 11.8 million to EUR 9.0 million. Other provisions increased, primarily as a result of the increased obligations from the stock appreciation rights program, outstanding invoices, and higher risk reserve provisions.

DISCONTINUATION OF THE TEXTILE ACTIVITIES OF BALDESSARINI

The textile activities under the BALDESSARINI brand will be phased out after delivery of the spring/ summer 2007 collection. The related activities were sold in the course of fiscal 2006.

OFF-BALANCE SHEET FINANCIAL INTRUMENTS

HUGO BOSS AG uses off-balance sheet financial instruments to a limited extent only. These instruments primarily concern leases related to real estate in Metzingen, Germany. Expenses resulting of such instruments are described in the notes.

CAPITAL EXPENDITURE

In fiscal 2006, EUR 13.0 million was invested in intangible assets (2005: EUR 11.1 million). HUGO BOSS AG invested EUR 20.3 million (2005: EUR 12.1 million) in property, plant and equipment.

Main focus was on investments in IT-projects, primarily the strategic project, entitled "Columbus", which assists in systematically identifying synergy potential and optimizing processes, and investments in the equipment installed in the new administration building in Metzingen.

RESEARCH AND DEVELOPMENT

Research and development 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 AG.

A total of EUR 19.2 million (2005: EUR 18.5 million) was spent on this activities in the 2006 reporting period.

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 AG:

Employee Qualifications: At HUGO BOSS AG, employees are regarded as a significant part of our Company's assets. The ability of our employees to identify with the Company and make a commitment to its objectives, along with their dedication, are a crucial part of the Company's success. HUGO BOSS places equal importance on modern financial incentive models that reward individual performance and on compensating the overall performance of our staff. Employee potential is also fostered by a high degree of personal responsibility. Thanks to our highly qualified staff, most vacant management positions can be filled by HUGO BOSS Group employees, ensuring that our expertise is expanded while remaining within the Company.

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

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

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

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

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

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

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

OTHER INFORMATION

AUTHORIZED CAPITAL, AUTHORIZATION TO PURCHASE OWN SHARES

On May 18, 2004, the Annual Shareholders' Meeting of HUGO BOSS AG authorized the Managing Board, subject to the consent of the Supervisory Board, to increase the Company's nominal authorized capital by May 18, 2009 by a total of no more than EUR 35.2 million by issuing one or several times new bearer shares and/or bearer preferential shares without voting rights, which correspond to the bearer preferential shares without voting rights already issued, in return for cash and/or deposits in kind.

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

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

SHAREHOLDER STRUCTURE

In 2006, no major changes occurred to the Company's shareholder structure in comparison with fiscal 2005. As in the previous year, the Valentino Fashion Group S.p.A. holds 50.9% (35,854,128 shares) of the total share capital of HUGO BOSS AG. The Italian Valentino Group holds 78.8% of the common stock (28,242,128 shares) and 22.0% of the preferred stock (7,612,000 shares). This translates into a free float of 21.2% for common shares and 78.0% for preferred shares. Apart from the Valentino Group, we are not aware of any other shareholders holding more than 3% of the share capital of HUGO BOSS AG. Other notable blocks of shares are held by major institutional investors in North America, Germany, Great Britain, and Switzerland.

ADDITIONAL DISCLOSURES IN ACCORDANCE WITH SECTION 289 OF THE GERMAN COMMERCIAL CODE (HGB)

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

IMPLEMENTATION OF THE STRATEGIC "COLUMBUS" PROJECT

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

SUSTAINED VALUE CREATION

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

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

ENVIRONMENTAL PROTECTION

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

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

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

PROCUREMENT

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

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

ORDERS

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

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

HUGO BOSS therefore no longer publishes pre-order figures.

HUMAN RESOURCES

At the close of fiscal 2006, HUGO BOSS AG employed 2,398 persons (December 31, 2005: 2,057).

Highly qualified and motivated employees are a crucial part of the Company´s success. The ability of our employees to be prepared for future challenges is ensured by numerous activities such as internal and external training programs. Continuing education measures are tailored to match corporate and divisional goals.

SUMMARY OF FINANCIAL PERFORMANCE AND FINANCIAL POSITION

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

EVENTS AFTER THE BALANCE SHEET DATE

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

REMUNERATION SYSTEM FOR MANAGING AND SUPERVISORY BOARD MEMBERS

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

RISK REPORT

RISK EARLY WARNING SYSTEM

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

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

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

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

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

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

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

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

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

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

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

EXTERNAL RISKS

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

INTERNAL RISKS

RISKS RELATED TO INVENTORIES AND RECEIVABLES

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

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

Credit insurance limits the bad debt risk to the amount of the deductible. Certain measures revolve around granting and adhering to customer credit limits, monitoring the aging of receivables, and managing doubtful accounts. Internal audit regularly reviews adherence to these internal guidelines.

MARKET RISKS AND OPPORTUNITIES

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

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

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

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

TRADEMARK PROTECTION

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

Trademark violations, gray market activities, and counterfeiting could not only lead to short-term sales losses, but may cause long-term damage to brand image. These activities are, therefore, closely monitored around the globe.

The affiliated company HUGO BOSS Trade Mark Management GmbH & Co. KG is responsible for the trademark protection. In line with this, customers as well as sales partners work closely together with this subsidiary.

LEGAL RISKS AND LIABILITY RISKS

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

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

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

Adequate provisions are created for court and legal advice costs.

INSURANCE

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

PERSONNEL RISKS

HUGO BOSS is distinguished by a corporate culture based on trust with a flat hierarchical structure and a focus on independent thought and action at all levels. The Company also strives to motivate employees and 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 regarded as insiders as defined in securities legislation are listed in an insider directory and are required to comply with the pertinent regulations.

MANAGEMENT RISKS

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

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

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

PURCHASING, PRODUCTION, LOGISTICS AND SALES

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

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

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

In the sales area, the focus is on a balanced customer structure. A detailed sales monitoring system facilitates continuous and prompt control of order levels, sales revenues, delivery rates and other key figures.

IT AND COMMUNICATIONS RISKS

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

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

FUNDING AND INTEREST RATE RISKS

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

FOREIGN CURRENCY RISKS

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

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

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

SENSITIVE CURRENCIES 2007

in € million	Cash inflow	Cash outflow	Net corrency exposure	Negative impact of euro appreciation of 10%[1]
USD	77.4	(61.3)	**16.1**	(0.05)
GBP	64.6	(2.2)	**62.4**	(0.31)
CHF	18.4	(27.4)	**(9.0)**	(0.90)
CAD	21.4	(0.2)	**21.2**	0.96
Others	17.3	(18.7)	**(1.4)**	(0.44)
Total	199.1	(109.8)	**89.3**	(0.74)

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

OVERALL RISK

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

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

FORECAST

FORECAST FOR THE YEARS 2007 AND 2008
CONTINUED ECONOMIC GROWTH IN 2007 AND 2008

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

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

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

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

The above scenarios assume that commodities prices will stabilize. In addition, geopolitical risks and terrorists attacks could have a strong negative impact on forecasted growth levels.

SECTOR DEVELOPMENT

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

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

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

SALES FORECAST

For the years 2007 and 2008, the Managing Board of HUGO BOSS AG anticipates that the business trend will continue moving upwards.

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

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

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

EARNINGS TRENDS

With regard to the operating result, the Managing Board anticipates a positive trend, primarily due to efficiency improvements ensuing from the “Columbus” project and high growth rates for the womenswear collection, particularly from the newly launched BOSS Orange Womenswear.

Financial results will improve due to positive expectations of the license business of the HUGO BOSS Trade Mark Mangement GmbH & Co. KG.

CAPITAL EXPENDITURE

During fiscal 2007 and 2008 HUGO BOSS AG will propel its business growth. Funds will be invested in logistics and key IT projects such as the continuation of the project to replace the Enterprise Resource Planning Systems (ERP) with SAP AFS standard software and the introduction of a retail management system.

DIVIDENDS

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

FINANCIAL POSITION

The HUGO BOSS AG´s balance sheet is expected to continue to show a balanced proportion of shareholders’ equity and borrowings in fiscal 2007 and 2008.

SUMMARY OF THE FORECAST

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

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

REPORT ON RELATIONS WITH AFFILIATED COMPANIES

Since no controlling agreement has been signed with the majority shareholder, the Managing Board of Hugo Boss AG is obligated to prepare a report on relations with affiliated companies in accordance with Section 312 of the German Stock Corporation Act (AktG). This report covers the relations between the Valentino Fashion Group S.p.A. and the companies belonging to the HUGO BOSS Group. The Managing Board declares in accordance with Section 312, Paragraph 3 of the German Stock Corporation Act that our Company received appropriate compensation for 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 2006.

Metzingen, March 1, 2007

HUGO BOSS AG
The Managing Board

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

BALANCE SHEET

AS OF DECEMBER 31, 2006 OF HUGO BOSS AG, METZINGEN

ASSETS

in €	Notes No.	Dec. 31, 2006		Dec. 31, 2005
A. Fixed Assets	(1)			
I. Intangible Assets				
1. Industrial property and similar rights		27,495,631.96		8,149,132.28
2. Prepayments		5,761,023.24		15,033,179.77
			33,256,655.20	**23,182,312.05**
II. Tangible Assets				
1. Land and buildings incl. buildings on third party land		15,603,856.84		16,043,692.84
2. Technical equipment and machinery		3,035,362.00		3,292,240.00
3. Other equipment, factory and office equipment		39,611,259.03		29,755,157.42
4. Prepayments made and construction in progress		1,497,388.55		2,147,769.35
			59,747,866.42	**51,238,859.61**
III. Financial Assets	(2)			
1. Shares in affiliated companies		645,057,025.94		655,893,780.06
2. Other shares		28,800.00		52,830.72
			645,085,825.94	**655,946,610.78**
			738,090,347.56	**730,367,782.44**
B. Current Assets				
I. Inventories				
1. Raw materials and supplies		41,232,182.01		34,824,898.14
2. Work in progress		474,582.93		403,423.15
3. Finished goods and merchandise		80,037,135.97		70,157,546.55
4. Payments on account		1,214,369.30		–.—
			122,958,270.21	**105,385,867.84**
II. Receivables and other Assets	(3)			
1. Trade receivables		8,401,241.18		11,809,360.24
2. Receivables from affiliated companies		41,403,703.53		27,415,315.75
3. Receivables from companies in which participating interests are held		104,202.61		1,639,817.48
4. Other assets		32,658,882.87		21,724,214.61
			82,568,030.19	**62,588,708.08**
III. Securities	(4)			
1. Own shares			31,113,705.65	12,096,435.54
IV. Liquid Assets			5,395,711.63	1,837,004.09
			242,035,717.68	**181,908,015.55**
C. Prepaid Expenses	(5)		1,434,559.68	1,955,993.57
			981,560,624.92	**914,231,791.56**

EQUITY AND LIABILITIES

in €	Notes No.	Dec. 31, 2006		Dec. 31, 2005
A. Shareholders' Equity				
I. Subscribed Capital	(6)			
1. Common stock		35,860,000.00		35,860,000.00
2. Non-voting preferred stock		34,540,000.00		34,540,000.00
			70,400,000.00	**70,400,000.00**
II. Capital Surplus	(7)		399,198.30	399,198.30
III. Retained Earnings	(8)			
1. Legal reserves		6,640,801.70		6,640,801.70
2. Reserves for own shares		31,113,705.65		12,096,435.54
3. Other revenue reserves		501,873,455.20		526,723,830.63
			539,627,962.55	**545,461,067.87**
IV. Unappropriated Income	(9)		84,121,400.00	70,745,400.00
			694,548,560.85	**687,005,666.17**
B. Accruals				
1. Accruals for pensions and similar obligations		16,983,535.00		13,328,023.00
2. Tax accruals		8,993,196.42		11,789,671.00
3. Other accruals	(10)	71,161,158.91		51,396,156.80
			97,137,890.33	**76,513,850.80**
C. Liabilities	(11)			
1. Due to banks		51,483,163.59		1,650,244.91
2. Trade payables		28,683,518.34		23,705,196.72
3. Due to affiliated companies		103,129,499.83		118,156,208.03
4. Due to companies in which participating interests are held		1,173,346.59		13,045.20
5. Other liabilities		5,404,645.39		7,187,579.73
			189,874,173.74	**150,712,274.59**
			981,560,624.92	**914,231,791.56**
Contingent Liabilities	(12)		59,166,642.12	99,727,737.47

STATEMENT OF INCOME

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006 OF HUGO BOSS AG, METZINGEN

in €	Notes No.	2006	2005
1. Sales	(13)	758,216,353.25	692,351,776.43
2. Change in finished goods and work in progress		15,716,551.80	770,644.44
3. Other operating income	(14)	112,319,334.53	83,149,126.04
		886,252,239.58	**776,271,546.91**
4. Cost of materials			
a) Cost of raw materials and supplies and of purchased merchandise		386,058,233.18	354,531,260.91
b) Cost of purchased services		90,210,815.18	80,308,387.18
		476,269,048.36	**434,839,648.09**
5. Personnel expenses	(15)		
a) Wages and salaries		102,303,862.66	89,993,095.06
b) Social security and other pension costs		19,686,148.36	16,353,463.29
		121,990,011.02	**106,346,558.35**
6. Depreciation of intangible fixed assets and tangible assets		13,460,638.94	11,156,708.71
7. Other operating expenses	(16)	229,256,084.68	195,641,229.94
		45,276,456.58	**28,287,401.82**
8. Income from investments	(17)	65,201,970.25	60,585,949.07
9. Other interest and similar income	(18)	3,206,653.41	3,095,290.08
10. Amortization of financial assets		–.—	374,858.00
11. Expenses from loss transfer agreements	(19)	1,696,927.34	617,369.45
12. Interest and similar expenses	(20)	9,582,829.53	7,087,475.93
13. **Income from ordinary activities**		**102,405,323.37**	**83,888,937.59**
14. Taxes on income	(21)	24,406,411.55	23,573,268.86
15. Other taxes		227,906.81	113,233.48
16. **Net income**		**77,771,005.01**	**60,202,435.25**
17. Transfer to other revenue reserves		24,850,375.43	20,250,680.27
18. Transfer to reserves for own shares		19,017,270.11	9,993,745.31
19. Accumulated income – previous year		517,289.67	286,029.79
20. **Unappropriated income**		**84,121,400.00**	**70,745,400.00**

NOTES

TO THE 2006 FINANCIAL STATEMENTS OF HUGO BOSS AG, METZINGEN

ACCOUNTING

The 2006 financial statements of HUGO BOSS AG have been prepared in accordance with the rules and regulations of the German Commercial Code (HGB) and Stock Corporation Law (AktG). To provide a clearer overview of the balance sheet and the statement of income, the comments and explanations on the individual items have been included in the notes. Items that were not applicable were not shown.

Valentino Fashion Group S.p.A., Milan, (Italy), holds the majority of the voting rights of HUGO BOSS AG via V.F.G. International N.V., Amsterdam, (Netherlands).

HUGO BOSS AG will be included in the consolidated financial statements of Valentino Fashion Group S.p.A. You can order the financial statements under following address:

Valentino Fashion Group S.p.A.
Investor Relations
Via Turati, 16/18
20121 Milan
Italy

ACCOUNTING AND VALUATION PRINCIPLES

The accounting and valuation methods applied last year have been retained.

FIXED ASSTES

Intangible assets acquired for consideration were valued at the cost of acquisition and depreciated using the straight-line method for useful lives of three to ten years. Interfaces for data interchange will be depreciated over a two-years period until the full extension of SAP AFS to all brands.

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

The depreciation of buildings was based on useful lives of 25 to 50 years. For technical equipment and machines, the useful lives are five to 15 years, for other equipment, factory and office equipment, two to 15 years. Where consistent with tax directives, the declining balance method with a transition to the straight-line method of depreciation was applied for movable fixed assets. Low-value items were deducted in full in the year of acquisition.

Financial assets were valued at the cost of acquisition or the lower value applicable.

CURRENT ASSETS

Raw materials and supplies were valued at the average cost of acquisition.

Unfinished and finished goods were valued at the average cost of production, merchandise at the average cost of acquisition.

Cost of production includes direct costs of materials, manufacturing costs and special costs of production. Perceivable risks arising from low inventory turnover and reduced utilization were covered by appropriate write-downs.

Receivables and other assets were reported at their nominal value. Apparent individual risks were taken into account by suitable allowances. The general credit risks were adequately covered by a lump-sum bad debt allowance.

Liquid assets were valued at their nominal value or their lower attributed amount.

ACCRUALS AND LIABILITIES

Accruals for pensions at HUGO BOSS AG have been fully valued on an ongoing basis according to „mortality table 2005G Prof. Dr. Heubeck" principles and assuming an interest rate of 4 percent.

The other accruals cover all ascertainable risks and contingent liabilities. They are valued with reasonable commercial evaluation. Costs of maintenance and repair not effected were accrued according to section 249 (1) clause 3 of the German Commercial Code.

Liabilities were valued at their repayment amounts.

HEDGING CONTRACTS

Based on the imparity principle of the German Commercial Code, hedging contracts relating to existing receivables are valued at market rate at the closing date, other assets are valued at the cost of acquisition as the maximum.

The Company combats the risk of currency fluctuation by forward exchange contracts and options. These transactions are usually undertaken either to secure specific customer contracts, or on the basis of reliable prognoses as to the currency needs.

CURRENCY CONVERSION

Foreign currency receivables and payables were converted using the exchange rates effect at the transaction date. Losses on exchange were shown at the balance sheet date based on the lower of cost or market principle with an effect on net income.

INVESTMENT HOLDINGS OF HUGO BOSS AG

INVESTMENT HOLDINGS OF HUGO BOSS AG

Company	Head Office	Result		Equity	
		2006	2005	Dec. 31, 2006	Dec. 31, 2005
		TEUR	TEUR	TEUR	TEUR
HUGO BOSS Holding Netherlands B.V.	Amsterdam, Netherlands	120,125	(23)	745,078	624,953
HUGO BOSS Internationale Beteiligungs-GmbH	Metzingen, Germany	0[1]	0[1]	625,000	625,000
HUGO BOSS International B.V.[2]	Amsterdam, Netherlands	83,032	13,215	187,143	224,224
HUGO BOSS Trade Mark Management GmbH & Co. KG	Metzingen, Germany	66,316	56,464	85,056	73,258
HUGO BOSS USA, Inc.[3]	Wilmington, DE, USA	7,182	5,175	78,866	80,215
HUGO BOSS Benelux B.V.	Amsterdam, Netherlands	9,006	8,358	72,595	63,589
HUGO BOSS S.p.A.	Como, Italy	394	(242)	54,765	54,372
HUGO BOSS France SAS (former HUGO BOSS Holding France SAS)	Paris, France	2,947	(2,383)	44,968	42,021
HUGO BOSS Industries (Switzerland) Ltd.	Coldrerio, Switzerland	27,131	19,790	42,400	61,823
HUGO BOSS Services (Svizzera) S.A.	Besazio, Switzerland	15,728	66[2]	18,834	17,746[2]
HUGO BOSS Italia S.p.A.	Milan, Italy	398	(55)	15,205	14,807
HUGO BOSS Holdings Pty. Ltd.	Preston, Australia	—	—	12,363	14,716
HUGO BOSS Canada, Inc.	Toronto, Canada	1,639	1,252	11,978	15,201
HUGO BOSS Australia Pty. Ltd.	Preston, Australia	2,141	2,414	11,114	18,594
HUGO BOSS UK Limited	London, United Kingdom	9,398	10,217	10,784	11,381
HUGO BOSS Hong Kong Ltd.	Hong Kong, China	9,267	5,304	7,918	5,514
HUGO BOSS Shoes & Accessories Italia S.p.A.	Morrovalle, Italy	1,863	(754)	6,821	5,166
HUGO BOSS Mexico S.A. de C.V.	Mexico-City, Mexico	2,396	2,149	6,047	7,754
HUGO BOSS Textile Industry Ltd.	Izmir, Turkey	1,287	(1,660)	5,614	4,327
HUGO BOSS Belgium BVBA	Diegem, Belgium	1,659	1,520	5,496	3,837
HUGO BOSS España S.A.	Madrid, Spain	113	141	5,256	5,143
HUGO BOSS Scandinavia AB	Stockholm, Sweden	3,041	2,778	4,364	8,644
HUGO BOSS (Switzerland) AG	Zug, Switzerland	2,024	1,874	3,564	4,797
HUGO BOSS Denmark APS	Copenhagen, Denmark	632	549	2,453	1,820
MSC Poland Sp.z.o.o.	Radom, Poland	75	(168)	1,520	1,432
HUGO BOSS Switzerland Retail AG	Zurich, Switzerland	210	(52)	1,491	1,325
HUGO BOSS Benelux Retail B.V.	Amsterdam, Netherlands	1,267	51	1,419	153
HUGO BOSS Holding Sourcing S.A.[6]	Coldrerio, Switzerland	(1)	—	1,243	—
HUGO BOSS do Brasil Ltda.	São Paulo, Brazil	221	(576)	1,020	817
HUGO BOSS Dienstleistungs GmbH	Metzingen, Germany	190	412	745	554
HUGO BOSS Germany Retail GmbH	Metzingen, Germany	0[4]	0	602	602
HUGO BOSS Outlet Magazacilik Limited Sirketi	Izmir, Turkey	162	170	554	392
HUGO BOSS Mexico Management Services S.A. de C.V.	Mexico-City, Mexico	51	76	174	140
HUGO BOSS International Markets AG[6]	Zug, Switzerland	(466)	—	166	—
HUGO BOSS Beteiligungsgesellschaft mbH	Metzingen, Germany	(116)	940	154	270
HUGO BOSS China Retail Co. Ltd.[6]	Shanghai, China	(547)	—	58	—
HUGO BOSS Trade Mark Management Verwaltungs-GmbH	Metzingen, Germany	(6)	0	19	25
HUGO BOSS Vermögensverwaltungs GmbH & Co. KG[6]	Metzingen, Germany	0	—	10	—

Company	Head Office	Result		Equity	
		2006 TEUR	2005 TEUR	Dec. 31, 2006 TEUR	Dec. 31, 2005 TEUR
Baldessarini GmbH & Co. KG	Munich, Germany	4,912	(2,025)	0	(1,880)
Baldessarini Design und Verwaltungs-GmbH	Munich, Germany	1	1	0	26
HUGO BOSS Belgium Retail BVBA	Diegem, Belgium	(40)	0	(21)	19
ROSATA Grundstücks-Vermietungsges. mbH & Co. Objekt Dieselstr. KG	Duesseldorf, Germany	(4)	(13)	(302)	(298)
HUGO BOSS Portugal, Unipessoal, Lda.	Lisbon, Portugal	(885)	(483)	(1,363)	(478)
ROSATA Grundstücks-Vermietungsges. mbH & Co. Objekt Metzingen KG	Duesseldorf, Germany	(259)	(393)	(2,652)	(2,393)
BIL Leasing Verwaltungs-GmbH & Co. 869 KG	Poecking, Germany	(345)	(387)	(3,119)	(2,774)
HUGO BOSS Japan K.K.	Tokyo, Japan	(4,723)	(69)	(3,211)	1,332
HUGO BOSS Shoes & Accessories S.A.	Coldrerio, Switzerland	(7,541)	(1,476)	(7,419)	(38)
HUGO BOSS Elysees SAS	Paris, France	0	0	0	37
HUGO BOSS France SAS [5]	Paris, France	0	3,309	0	0
HUGO BOSS France Retail SAS [5]	Paris, France	0	(57)	0	0
HUGO BOSS Calais SAS [5]	Coquelles, France	0	(47)	0	0
HUGO BOSS Troyes SAS [5]	Paris, France	0	330	0	0

The amounts shown reflect the subsidiaries IFRS-statements

The amount of holding represents 100% with all companies other than ROSATA Grundstücks-Vermietungsges. mbH & Co. Objekt Metzingen KG, ROSATA Grundstücks-Vermietungsges. mbH & Co. Objekt Dieselstr. KG as well as BIL Leasing Verwaltungs-GmbH & Co. 869 KG with an amount of holding each of 94%

1 Net income after profit transfer to HUGO BOSS AG from profit transfer agreement
2 Profit includes dividends receipts amounting EUR 79,561 thousand (previous year EUR 15,230 thousand)
3 Sub-group financial statement
4 Net income after profit transfer to HUGO BOSS Beteiligungsgesellschaft mbH from profit transfer agreement
5 Merged to HUGO BOSS France SAS (former HUGO BOSS Holding France SAS) as of April 1, 2005
6 launched in fiscal 2006

FINANCIAL ANALYSIS

STATEMENT OF CASH FLOWS

in €	2006	2005
Net income for the year	77,771,005.01	60,202,435.25
Depreciation/Value appreciation	13,085,780.94	11,531,566.71
Change in accruals	20,624,039.53	17,192,165.53
Gain/loss on asset retirement	(4,392,967.16)	(179,106.25)
Change in inventories	(17,572,402.37)	840,772.01
Change in receivables and other assets [1]	(4,533,662.56)	27,999,613.15
Change in trade payables and other liabilities [2]	4,449,417.47	1,416,422.81
Cash flow from operating activities	**89,431,210.86**	**119,003,869.21**
Revenue on asset retirement	17,522,416.77	5,227,631.44
Investments in intangible fixed assets	(12,991,755.75)	(11,087,860.96)
Investments in tangible fixed assets	(20,330,124.75)	(12,098,387.53)
Investments in financial assets	(615,915.16)	(506,862.71)
Change in financing subsidiaries	(14,924,225.67)	(5,881,662.10)
Cash flow from investment activities	**(31,339,604.56)**	**(24,347,141.86)**
Dividend previous year	(70,228,110.33)	(59,195,370.21)
Change in own shares	(19,017,270.11)	(9,993,745.31)
Change in liabilities due to banks and other financial liabilities	50,206,754.04	(53,233,665.25)
Change in financial liabilities due to affiliated companies	(15,494,272.36)	28,543,552.83
Cash flow from external financing activities	**(54,532,898.76)**	**(93,879,227.94)**
Change in liquid funds	**3,558,707.54**	**777,499.41**
Liquid funds at the beginning of the period	1,837,004.09	1,059,504.68
Liquid funds at the end of the period	**5,395,711.63**	**1,837,004.09**

1 Other assets, prepaid expenses

2 Other non-interest-bearing liabilities

The liquid funds comprises liquid assets as shown in the balance sheet.

NOTES TO THE BALANCE SHEET

(1) FIXED ASSETS

The development of fixed assets during the 2006 fiscal year as defined by section 268 (2) of the German Commercial Code is shown on pages 62 and 63.

The intangible assets refer mainly to IT software. The additions to the tangible assets (EUR 20.3 million) are attributable mainly to extended IT operations, the setting up of showrooms and the investment in warehousing and manufacturing equipment as well as office equipment.

(2) FINANCIAL ASSETS

As of September 1, 2006 Baldessarini GmbH & Co. KG as well as Baldessarini Design und Verwaltungs-GmbH, both with registered office in Munich, were sold. Also the shareholding of HUGO BOSS Benelux B.V. was sold to HUGO BOSS International B.V. at December 1, 2006. Additions were made by the increase of investments in HUGO BOSS Trade Mark Mangement GmbH & Co. KG as well as the foundation of HUGO BOSS Vermögensverwaltungs GmbH & Co. KG.

(3) RECEIVABLES AND OTHER ASSETS

Presentation according to remaining terms (prior year's figures in brackets)

	With a remaining term			
in €	**up to 1 year**	**from 1 to 5 years**	**of more than 5 years**	**Total**
Trade receivables	8,401,241.18	–.—	–.—	8,401,241.18
	(10,481,376.20)	(1,327,984.04)	(–.—)	(11,809,360.24)
Receivables from affiliated companies	41,403,703.53	–.—	–.—	41,403,703.53
	(27,415,315.75)	(–.—)	(–.—)	(27,415,315.75)
Receivables from companies in which participating interests are held	104,202.61	–.—	–.—	104,202.61
	(1,639,817.48)	(–.—)	(–.—)	(1,639,817.48)
Other assets	20,514,310.41	5,294,240.97	6,850,331.49	32,658,882.87
	(13,890,639.59)	(2,705,737.34)	(5,127,837.68)	(21,724,214.61)
	70,423,457.73	**5,294,240.97**	**6,850,331.49**	**82,568,030.19**
	(53,427,149.02)	(4,033,721.38)	(5,127,837.68)	(62,588,708.08)

Receivables from affiliated companies include loans amounting to EUR 39.0 million (previous year EUR 24.1 million) and trade receivables.
Other assets mainly include receivables from the reinsurance of employees' pension plans amounting to EUR 14.0 million (previous year EUR 9.7 million), tax receivables, loans as well as receivables from credit card institutions and prepayments to suppliers and business partners.

(4) SECURITIES

On December 31, 2006 526,055 own shares and 577,472 preferred shares were held. The related portion of share capital is EUR 1,103,527.00 (1,57%).

	date of acquisition	quantity treasury shares	quantity preferred shares
until	Dec. 31, 2005	277,751	237,167
	May 19, 2006		28,000
	May 22, 2006		31,000
	May 23, 2006		31,000
	May 24, 2006		31,000
	May 26, 2006		30,000
	May 29, 2006		13,200
	May 30, 2006		27,000
	May 31, 2006		19,000
	June 08, 2006	6,000	
	June 12, 2006	15,800	
	June 13, 2006	13,000	
	June 14, 2006	11,000	
	June 15, 2006	2,000	
	June 16, 2006	15,000	
	June 19, 2006	600	
	June 20, 2006	1,800	
	June 21, 2006	800	
	June 27, 2006	7,300	
	June 28, 2006	1,800	
	June 29, 2006	4,600	
	July 06, 2006	3,000	
	July 13, 2006	2,748	
	July 14, 2006	23,000	
	July 17, 2006	20,500	
	July 18, 2006	16,000	
	July 19, 2006	17,000	
	July 20, 2006	27,500	
	July 21, 2006	46,368	
	July 24, 2006	300	
	July 25, 2006	2,212	
	August 28, 2006		12,200
	August 29, 2006		7,221
	August 30, 2006		600
	September 04, 2006		2,584
	September 05, 2006		20,000
	September 06, 2006	1,500	20,000
	September 07, 2006	5,832	20,000
	September 08, 2006	1,300	20,000
	September 11, 2006	950	20,000
	September 12, 2006	394	7,500
	Total	**526,055**	**577,472**

Own shares, of which 588,609 were acquired, constitute EUR 588,609 (0,84%) of subscribed capital. These shares are aquired from May 19, 2006 to September 12, 2006 for a total of EUR 19,017,270.11.

Own shares should facilitate
- widening the circle of shareholders by offerings to both domestic and foreign institutional investors;
- allow a consideration in the form of treasury stock in the event of corporate mergers or when a company or participation is being acquired;
- placing the share on foreign stock exchanges.

There are no specific plans to make use of this authorization at present.

(5) PREPAID EXPENSES

The prepaid expenses refer mainly to prepaid IT cost and marketing cost.

(6) SUBSCRIBED CAPITAL

At December 31, 2006, the subscribed capital of HUGO BOSS AG amounted to EUR 70,400,000.00.

in €	Dec. 31, 2006	Dec. 31, 2005
Common stock issued to bearer 35,860,000 shares	35,860,000	35,860,000
Non-voting preferred stock issued to bearer 34,540,000 shares	34,540,000	34,540,000
	70,400,000	**70,400,000**

The Management Board of HUGO BOSS AG is entitled, under precondition of approval by the Supervisory Board, to increase the subscribed capital of the company by authorized capital of EUR 35,200,000 until May 18, 2009. The authorized capital can be used to issue common and preferred shares on one or more occasions.

INFORMATION CONCERNING THE MAJORITY SHAREHOLDER

On October 17, 2005 HUGO BOSS AG received the following notification from V.F.G. International N.V., Amsterdam, The Netherlands, pursuant to Section 21 of the German Securities Trading Act (WpHG) of March 12, 2003:
„Referring to our notification of March 12, 2003 we hereby inform you that on September 28, 2005 the Company has changed its name from Marzotto International N.V. to V.F.G. International N.V.
We continue to hold 78,76% of subscribed capital with voting rights."

Metzingen, October 2005 The Managing board

On July 6, 2005 HUGO BOSS AG received the following notification from the Valetino Fashion Group S.p.A., Milan, Italy pursuant to section 21 paragraph 1 and section 22 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

HUGO BOSS AG received no further notes until December 31, 2006.

(7) CAPITAL SURPLUS

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

(8) RETAINED EARNINGS

The reserve for own shares was built up due to the acquisition of shares in 2006 amounting to the net book value of the shares acquired (EUR 19,017,270.11) to EUR 31,113,705.65.
The step up amount was reconciled against other revenue reserves.

The other revenue reserves developed as follows:

in €	
Balance on January 1, 2006	526,723,830.63
Withdrawls from other revenue reserves due to allocation to reserves for own shares	(19,017,270.11)
Withdrawls from other revenue reserves according to resolution of the Management and Supervisory Boards	(5,833,105.32)
Balance at December 31, 2006	**501,873,455.20**

(9) UNAPPROPRIATED INCOME

The shareholders' meeting held on May 4, 2006 decided on the use of previous years unappropriated income as follows: contribution of dividends amounting to EUR 70,228,110.33 and EUR 517,289.67 to be carried forward to new account.

(10) OTHER ACCRUALS

in €	Dec. 31, 2006	Dec. 31, 2005
Human resources	28,441,873.57	19,069,492.90
Other accrued liabilities	18,594,554.51	17,268,239.91
Outstanding invoices for goods and services	23,791,811.82	14,961,933.99
Operating reserves	332,919.01	96,490.00
	71,161,158.91	**51,396,156.80**

Other accrued liabilities mainly originate from liabilities for returns of merchandise, litigation costs and sales agent's commissions.

(11) LIABILITIES

Presentation according to remaining terms (previous year's figures in brackets)

	With a remaining term			
in €	up to 1 year	from 1 to 5 years	of more than 5 years	Total
Due to banks	51,483,163.59	–.—	–.—	51,483,163.59
	(1,650,244.91)	(–.—)	(–.—)	(1,650,244.91)
Trade payables	28,683,518.34	–.—	–.—	28,683,518.34
	(23,705,196.72)	(–.—)	(–.—)	(23,705,196.72)
Due to affiliated companies	103,129,499.83	–.—	–.—	103,129,499.83
	(118,156,208.03)	(–.—)	(–.—)	(118,156,208.03)
Due to companies in which participating interests are held	1,173,346.59	–.—	–.—	1,173,346.59
	(13,045.20)	(–.—)	(–.—)	(13,045.20)
Other liabilities	4,043,294.56	–.—	1,361,350.83	5,404,645.39
	(6,200,064.26)	(–.—)	(987,515.47)	(7,187,579.73)
	188,512,822.91	**–.—**	**1,361,350.83**	**189,874,173.74**
	(149,724,759.12)	(–.—)	(987,515.47)	(150,712,274.59)

The trade payables are subject to usual reservation of ownership as far as they result from the purchase of raw materials, supplies and merchandise. EUR 3,9 million (2005: EUR 1,7 million) of the amounts due to banks are secured by mortgages.

The liabilities due to affiliated companies refer to loans with EUR 100.7 million (2005: EUR 116.2 million) and trade payables.

BREAKDOWN OF OTHER LIABILITIES

in €	Dec. 31, 2006	Dec. 31, 2005
Other liabilities	5,404,645.39	7,187,579.73
thereof:		
taxes	(2,686,688.63)	(2,889,460.79)
social security	(1,528,003.72)	(3,227,351.02)

(12) CONTINGENT LIABILITIES

in €	Dec. 31, 2006	Dec. 31, 2005
Contingent liabilities from guarantees	51,962,674.12	87,898,627.47
thereof associated companies	(51,962,674.12)	(87,898,627.47)
Contingent liabilties from warranty contracts	–.—	4,625,142.00
thereof associated companies	(–.—)	(4,625,142.00)
Contingent liabilities from the provision of collateral for third party liabilities	7,203,968.00	7,203,968.00
thereof associated companies	(7,203,968.00)	(7,203,968.00)
	59,166,642.12	**99,727,737.47**

NOTES TO THE STATEMENT OF INCOME

(13) SALES

Presentation by brands and geographical markets (prior year's figures in brackets)

in €	BOSS Menswear	BOSS Womenswear	HUGO	Others	Total
Germany	189,609,550.13	33,314,690.09	42,709,332.48	1,764,051.94	267,397,624.64
	(185,552,761.80)	(22,874,714.96)	(40,767,730.67)	(6,305,265.69)	(255,500,473.12)
Rest of Europe	279,188,214.15	45,579,961.85	27,538,982.56	35,413.00	352,342,571.56
	(261,110,105.00)	(30,140,243.07)	(25,059,446.74)	(2,456,036.03)	(318,765,830.84)
Americas	51,342,176.92	7,294,138.24	7,739,312.39	–.—	66,375,627.55
	(43,448,692.56)	(4,479,050.35)	(4,020,817.44)	(390,704.73)	(52,339,265.08)
Other regions	60,807,317.70	9,624,568.06	1,664,365.74	4,278.00	72,100,529.50
	(55,311,257.69)	(7,536,978.98)	(2,404,556.25)	(499,194.41)	(65,751,987.33)
Royalties	–.—	–.—	–.—	–.—	–.—
	(–6,659.11)	(–.—)	(–.—)	(879.17)	(–5,779.94)
	580,947,258.90	**95,813,358.24**	**79,651,993.17**	**1,803,742.94**	**758,216,353.25**
	(545,416,157.94)	(65,030,987.36)	(72,252,551.10)	(9,652,080.03)	(692,351,776.43)

(14) OTHER OPERATING INCOME

in €	2006	2005
Other operating income	112,319,334.53	83,149,126.04
thereof out of period income:	(9,728,731.16)	(2,523,906.33)

The other operating income mainly comprises cost and service charges, currency gains, as well as revenues from auxiliary business. The increase mainly results from higher marketing and administration charges to affiliated companies. The out of period income is predominantly attributable to the reversal of accruals and to asset disposals.

(15) PERSONNEL EXPENSES

in €	2006	2005
Personnel expenses	121,990,011.02	106,346,558.35
thereof for pensions	(4,116,108.65)	(2,254,824.59)

Average number of employees:

	2006	2005
Industrial employees	921	905
Commercial and administrative employees	1,262	1,098
	2,183	**2,003**

(16) OTHER OPERATING EXPENSES

in €	2006	2005
Other operating expenses	229,256,084.68	195,641,229.94
thereof out of period expenses	(942,027.38)	(419,876.94)

Other operating expenses contain mainly sales and marketing expenses; the increase is especially driven by higher trademarketing expenses. The out of period expenses concern losses from the sale of fixed assets.

(17) INCOME FROM INVESTMENTS

in €	2006	2005
Total	65,201,970.25	60,585,949.07
thereof affiliated companies	(65,201,970.25)	(60,585,949.07)

Income from investments was derived from HUGO BOSS Trade Mark Mangement GmbH & Co. KG.

(18) OTHER INTEREST AND SIMILAR INCOME

in €	2006	2005
Total	3,206,653.41	3,095,290.08
thereof affiliated companies	(2,740,310.29)	(1,264,478.04)

(19) LOSSES FROM INVESTEMENTS

in €	2006	2005
Total	1,696,927.34	617,369.45
thereof affiliated companiesn	(1,696,927.34)	(614,639.45)

The transfer of losses relates to the affiliated companies HUGO BOSS Beteiligungsgesellschaft mbH and HUGO BOSS Internationale Beteiligungs-GmbH.

(20) INTEREST AND SIMILAR EXPENSES

in €	2006	2005
Total	9,582,929.53	7,087,475.93
thereof affiliated companies	(7,294,404.23)	(4,251,604.29)

(21) TAXES ON INCOME

in €	2006	2005
Total	24,406,411.55	23,573,268.86

Taxes on income relate to the income from ordinary activities only.

FINANCIAL DERIVATES

In order to hedge anticipated payments from subsidiaries for deliveries invoiced in local currency in part or in whole against exchange rate risks, HUGO BOSS AG uses derivative financial instruments. This includes forward exchange contracts and currency options.

In particular the derivatives cover anticipated payments from those countries in which HUGO BOSS AG has its main operations.

ADDITIONAL INFORMATION

Derivative financial instruments outstanding on December 31, 2006, are detailed below:

	2006		2005	
in € thous.	Nominal value	Market value	Nominal value	Market value
Forward exchange contracts	90,742	(284)	77,029	(1,489)
Currency options	4,380	0	2,993	(11)

Current market values of financial instruments are calculated as follows:

- Forward exchange contracts:
  For forward exchange contracts hedging rates of the forward transactions are measured at the forward rate applicable on December 31, 2006.

- Currency options:
  There is one currency option with market value EUR 0.00 as of December 31, 2006.

Gains from forward exchange contracts and currency options are recorded when they are realized. Anticipated losses related to these transactions (EUR 385,886.99) are contained in other provisions as at December 31, 2006.

OTHER FINANCIAL OBLIGATIONS ACCORDING TO SECTION 285 NO. 3 OF THE GERMAN COMMERCIAL CODE (HGB)

		Tenancy and leasing contracts			thereof affiliated companies:	
in €	Total	Buildings/ real estate	Hardware/ Software	Other contracts	Buildings Leasing	Other contracts
Due 2007	23,296,399.44	15,681,463.52	6,050,020.41	1,564,915.51	3,925,986.24	438,988.36
Due 2008 – 2011	58,988,766.16	52,658,802.13	2,873,293.26	3,456,670.77	15,632,694.96	1,975,448.32
Due after 2011	88,026,905.67	88,008,248.87	–.—	18,656.80	30,499,308.96	–.—
	170,312,071.27	**156,348,514.52**	**8,923,313.67**	**5,040,243.08**	**50,057,990.16**	**2,414,436.68**
Obligations from investments initiated during the year unter review, due in 2007	**7,258,411.79**					

All values are nominal values, i.e. they have not been discounted.

SUPERVISORY BOARD AND MANAGEMENT BOARD

The Supervisory Board received remunerations amounting to EUR 1,241 thousand (previous year: EUR 1,152 thousand), including variable portions of EUR 486 thousand (previous year: EUR 618 thousand) calculated on the basis of earnings per share.

The total remuneration of the Management Board (including excercised stock appreciation rights) amounted to EUR 5,342 thousand in 2006 (previous year: 5,086 thousand), divided into fixed (2006: EUR 1,406 thousand, 2005: EUR 1,798 thousand) and variable (2006: EUR 3,936 thousand, 2005: EUR 3,288 thousand) components.

The fixed salary components paid to members of the Managing Board comprise benefits such as company cars and benefit in kind as well as other equipment and services necessary for Management Board members to fulfill their duties. The variable components consist firstly of bonuses paid on the bases of the achievement of personal targets as agreed with the Supervisory Board for each Managing Board member as well as predefined corporate earnings targets.

Managing Board members are also granted stock appreciation rights to allow them to participate directly in the Company's long-term profits. The Management Board received 270,000 subscription rights in 2006 based on the terms of the stock appreciation rights program.

In addition to the remuneration specified above, the Company also provides pension benefits. Accruals for pension obligations for former members of the Management Board and their bereaved were accounted with EUR 6,196 thousand. These people received total remuneration during 2006 amounting to EUR 80 thousand (2005: EUR 1,429 thousand).

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

CORPORATE GOVERNANCE CODEX

The Management Board as well as the Supervisory Board of HUGO BOSS AG have made – in accordance with section 161 of the German Stock Corporation Law – the mandatory declaration. This declaration is permanently accessable for the shareholders on the Company's internet page.

AUDITORS FEES

Auditors fees expensed in fiscal 2006 amounted to EUR 280 thousand (previous year: EUR 227 thousand) connected to year-end audit. The audit company neither provided tax consultancy, valuation services nor other services.

SUPERVISORY AND MANAGING BOARDS

2006

SUPERVISORY BOARD

Dr. Giuseppe Vita, Milan, Italy	Supervisory Board, Chair
Antonio Simina, Metzingen, Germany	Tailor/Chairman of the Works Council HUGO BOSS AG, Metzingen, Germany Deputy Chair Employee Representative
Gert Bauer, Reutlingen, Germany	First Authorized Representative German Metalworkers' Union (IG-Metall) of the administration cost center, Reutlingen/Tuebingen, Germany Employee Representative
Philippe Bouckaert, London, Great Britain	Supervisory Board
Helmut Brust, Bad Urach, Germany	Director Retail Germany HUGO BOSS AG, Metzingen, Germany Employee Representative
Andrea Donà dalle Rose, Rome, Italy	Deputy Chairman of the Board of Directors Valentino Fashion Group S.p.A., Milan, Italy
Antonio Favrin, Portogruaro, Venice, Italy	Chairman of the Board of Directors Valentino Fashion Group S.p.A., Milan, Italy
Peter Haupt, Metzingen, Germany	Employee HUGO BOSS AG, Metzingen, Germany Employee Representative
Roland Klett, Metzingen, Germany	Head of Flat Packed Goods HUGO BOSS AG, Metzingen, Germany Employee Representative
Reinhold L. Mestwerdt, Kronberg, Germany	Managing Director Westdeutsche Spielbanken GmbH & Co. KG, Duisburg, Germany

Rainer Otto, Langen, Germany

Secretary
German Metalworkers' Union (IG-Metall)
Managing Board, Frankfurt/Main, Germany
Employee Representative

Dario Federico Segre, Milan, Italy

Managing Director
Finanziaria Canova S.p.A.,
Milan, Italy

MANAGING BOARD

Dr. Bruno Sälzer, Reutlingen

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

Dr. Werner Lackas, Eningen unter Achalm

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

André Maeder, Stuttgart

Responsible for Retail
Licenses and the HUGO brand
Member of the Managing Board
since January 01, 2004

Joachim Reinhardt, Metzingen

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

FURTHER INFORMATION

ON SUPERVISORY BOARD AND MANAGING BOARD MEMBERS

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

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

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

1 The members not mentioned have no seats on executive or advisory bodies at any other companies.
2 Holding the post of Chair.
3 Holding the post of Deputy Chair.

Dario Federico Segre	Canova Partecipazioni S.r.l.	Milan, Italy
	Joker Partecipazioni S.r.l.	Milan, Italy, until November 22, 2006
	Jolly Hotels S.p.A.	Valdagno, Italy
	Valentino S.p.A.	Milan, Italy, since May 9, 2006
	Grande Jolly S.r.l.	Milan, Italy, since November 29, 2006

Dr. Giuseppe Vita	Allianz Lebensversicherungs-AG	Stuttgart, Germany, until April 25, 2006
	Riunione Adriatica di Sicurtà (RAS) S.p.A. [2]	Milan, Italy
	Axel Springer AG [2]	Berlin, Germany
	Deutz AG [2]	Cologne, Germany, since June 22, 2006
	Schering AG [2]	Berlin, Germany, until September 13, 2006
	Humanitas S.p.A.	Milan, Italy, formerly Techosp S.p.A.
	Vattenfall Europe AG	Berlin, Germany
	Marzotto S.p.A.	Valdagno, Italy, until May 12, 2006
	Barilla S.p.A.	Parma, Italy

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

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

1 The members not mentioned have no seats on executive or advisory bodies at any other companies.
2 Holding the post of Chair.
3 Holding the post of Deputy Chair.

Metzingen, March 1, 2007

HUGO BOSS AG
The Managing Board

DEVELOPMENT OF FIXED ASSETS

	Acquisition or manufacturing costs			
in €	**Jan. 1, 2006**	**Additions**	**Disposals**	**Regrouped**
I. Intangible Assets				
1. Industrial property and similar rights	16,478,831.74	12,305,321.46	256,887.50	9,963,307.39
2. Prepayments	15,033,179.77	686,434.29	–.—	(9,958,590.82)
	31,512,011.51	**12,991,755.75**	**256,887.50**	**4,716.57**
II. Tangible Assets				
1. Land and buildings including buildings on third-party land	27,948,450.60	57,959.81	97,690.51	151,210.65
2. Technical equipment and machinery	13,519,713.69	822,312.35	1,194,145.35	5,200.00
3. Other equipment, factory and office equipment	83,186,594.44	17,952,464.04	7,639,844.89	1,986,642.13
4. Prepayments made and construction in progress	2,147,769.35	1,497,388.55	–.—	(2,147,769.35)
	126,802,528.08	**20,330,124.75**	**8,931,680.75**	**(4,716.57)**
III. Financial Assets				
1. Shares in affiliated companies	656,268,638.19	615,915.16	11,851,558.00	24,030.72
2. Other shares	52,830.72	–.—	–.—	(24,030.72)
	656,321,468.91	**615,915.16**	**11,851,558.00**	**–.—**
	814,636,008.50	**33,937,795.66**	**21,040,126.25**	**–.—**

		Depreciation		Net values	
	Dec. 31, 2006	Current business year	Accumulated	Dec. 31, 2005	Dec. 31, 2006
	38,490,573.09	2,934,471.86	10,994,941.13	8,149,132.28	27,495,631.96
	5,761,023.24	–.—	–.—	15,033,179.77	5,761,023.24
	44,251,596.33	**2,934,471.86**	**10,994,941.13**	**23,182,312.05**	**33,256,655.20**
	28,059,930.55	607,501.46	12,456,073.71	16,043,692.84	15,603,856.84
	13,153,080.69	1,084,389.35	10,117,718.69	3,292,240.00	3,035,362.00
	95,485,855.72	8,834,276.27	55,874,596.69	29,755,157.42	39,611,259.03
	1,497,388.55	–.—	–.—	2,147,769.35	1,497,388.55
	138,196,255.51	**10,526,167.08**	**78,448,389.09**	**51,238,859.61**	**59,747,866.42**
	645,057,026.00	–.—	0.13	655,893,780.06	645,057,025.94
	28,800.00	–.—	–.—	52,830.72	28,800.00
	645,085,826.07	**–.—**	**0.13**	**655,946,610.78**	**645,085,825.94**
	827,533,677.91	**13,460,638.94**	**89,443,330.35**	**730,367,782.44**	**738,090,347.56**

PROPOSAL FOR THE APPROPRIATION OF PROFITS

The financial statements of HUGO BOSS AG as of December 31, 2006 show an unappropriated income of EUR 84,121,400.00. In agreement with the Supervisory Board, the Managing Board proposes to the Shareholders' Meeting that the profits are appropriated as follows:

	EUR
1. Distribution of a dividend of 1.19 EUR per common share 35,333,945 common shares	42,047,394.55
2. Distribution of a dividend of 1.20 EUR per preferred share 33,962,528 preferred shares	40,755,033.60
3. Amount carried forward to new account	1,318,971.85
Unappropriated income	**84,121,400.00**

The proposal for the appropriated profit takes into consideration that 526.055 common shares and 577.472 preferred shares are held by HUGO BOSS AG at December 31, 2006. These shares are not entitled to dividends.

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

Metzingen, March 1, 2007

HUGO BOSS AG
The Managing Board

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

AUDITOR‘S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the HUGO BOSS AG, Metzingen, for the business year from January 1 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company‘s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes accessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the HUGO BOSS AG in accordance with German principles of proper accounting. The management reports is consistent with the annual financial statements and as a whole provides a suitable view of the Company‘s positions and suitably presents the opportunities and risks of future development.

Stuttgart, March 1, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Meyer	Hagg
Wirtschaftsprüfer	Wirtschaftsprüfer

DECLARATION OF HUGO BOSS AG PURSUANT TO SECTION 161 AKTG

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

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

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

Metzingen, December 2006

REPORT OF THE SUPERVISORY BOARD

BY DR. GIUSEPPE VITA

LADIES AND GENTLEMEN,

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE

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

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

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

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

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

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

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

- Pursuant to Section 119 Paragraph 1 Sentence 5 of the German Stock Corporation Act, any changes to the Articles of Association must be approved by the Annual Shareholders' Meeting. Unless otherwise mandated by the German Stock Corporation Act, resolutions are approved pursuant to Section 17 Sentences 2 and 3 of the Articles of Association by simple majority of the votes cast and – insofar as a majority of the capital is required to be represented for approving a resolution – by simple majority of the share capital represented upon voting on the resolution. According to Section 20 of the Articles of Association, the Supervisory Board is authorized to resolve on modifications to the Articles of Association that affect the wording only.

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

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

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

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

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

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS, AUDITED

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

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

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

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

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

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

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

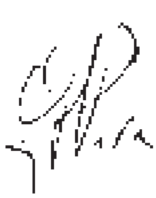
The Supervisory Board and its committees raised no objections during the course of their own review of the report on relations with affiliated companies and concur with the findings of the auditor.

CHANGE IN MANAGING BOARD MEMBERSHIP

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

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

Metzingen, March 1, 2007
The Supervisory Board



Dr. Giuseppe Vita
Chair of the Supervisory Board

HUGO BOSS AG

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