HUGO BOSS

ANNUAL REPORT **2010**

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DYNAMIC STRUCTURES AND STRONG BRANDS


HUGO BOSS AG Corporate Headquarters, Metzingen, Germany

ON COURSE

The strategic reorientation at HUGO BOSS is also posing new challenges for the Company's structures, systems and processes. Thanks to the measures already implemented and more recently initiated changes, HUGO BOSS is well prepared for the future – and firmly on track to reach its growth targets for 2015.

4

COLLECTIONS
A YEAR

In the past HUGO BOSS has presented 2 main collections and 2 pre-collections per year. By transitioning to 4 full collections annually, we will be able to supply merchandise to retailers more steadily – and offer consumers a consistent source of new shopping incentives.

38

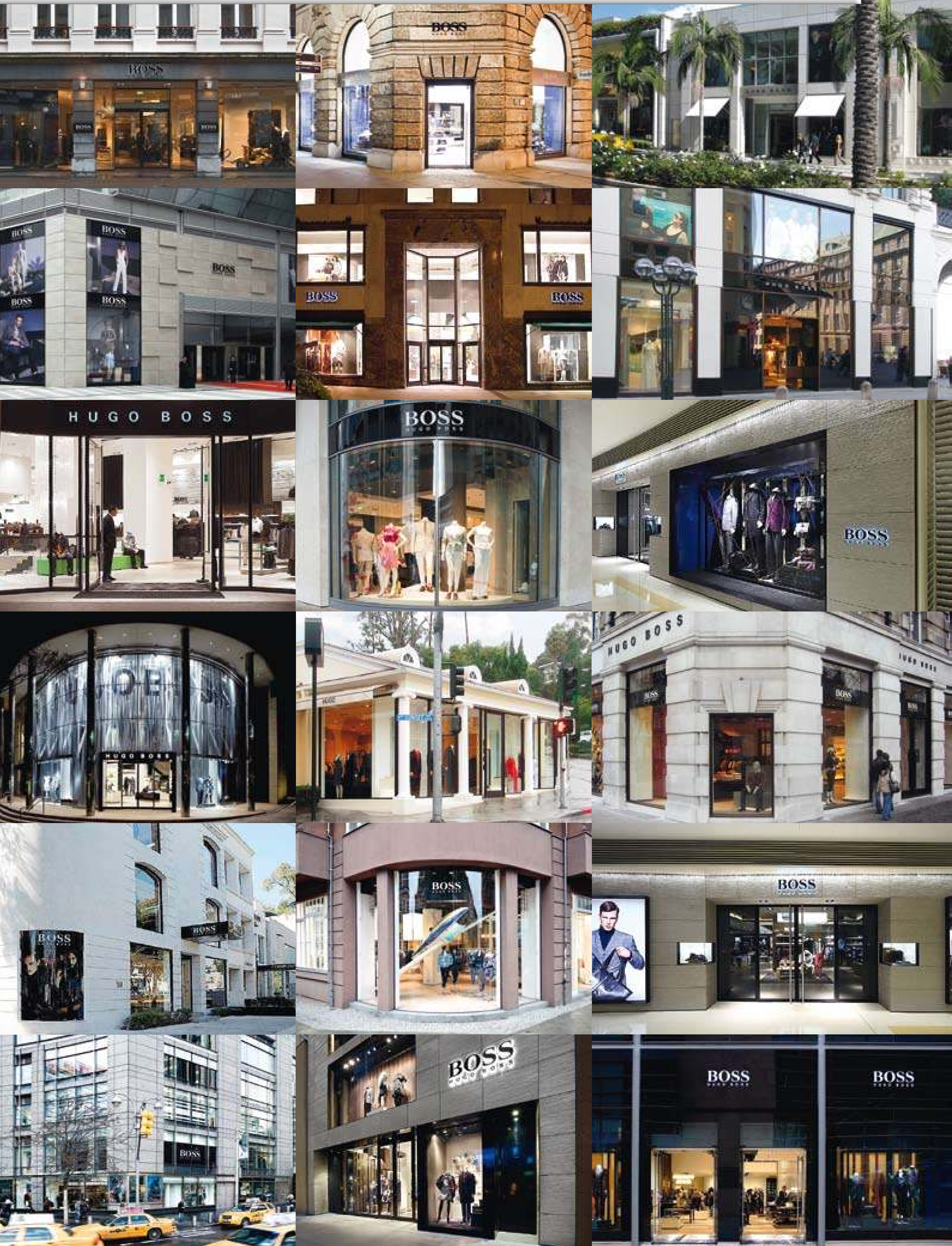
WEEKS

To date, it has taken 50 weeks to complete a collection – from the initial idea to final delivery. This period will now be progressively reduced by 12 weeks, allowing sales results from the current season to be factored into plans for the corresponding season the following year. By networking and optimizing its processes, HUGO BOSS will be able to translate trends into product even faster and to react more flexibly to the market.

100.000

ITEMS

HUGO BOSS is synonymous with consummate logistics; the new distribution center in Metzingen is a prime example. With its 110,000 m^2 of usable space and conveyor systems extending 37 kilometers, this site can process up to 100,000 hanging garments every single day – making it one of the most modern facilities of its kind in the European textile industry.


HUGO BOSS
BOSS
HUGO BOSS
BOSS
BOSS
BOSS

124

COUNTRIES

HUGO BOSS is an organization with a strong global focus that markets its products internationally in selected retail stores and directly operated stores – in 2010 there were POS locations in 124 countries around the world. The ongoing globalization of our business model represents a key thrust of the HUGO BOSS corporate strategy.

50

PERCENT

We will continue to expand our network of own retail stores, which are due to generate half of our sales by 2015. Having our own stores enables us to tap growth potential in future markets more effectively. Moreover, it allows us to establish direct contacts with end consumers and, last but not least, ensures a globally consistent, high-level presentation of our brand worlds.


Magazine
HUGO FASHION SHOW BERLIN
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MILLION VISITORS

For an innovative organization like HUGO BOSS, expanding online and mobile services – and its presences on social networking sites – is of paramount importance. Thanks to these platforms, the Group established contacts with over 15 million consumers and interested visitors in 2010. The website www.hugoboss.com hosts an interactive version of the annual report and provides information on the Company, its brands and products. And the embedded Online Store enables shoppers to purchase their choices around the clock.

BOSS
HUGO BOSS

BOSS SELECTION
HUGO BOSS

BOSS
HUGO BOSS

BOSS ORANGE

HUGO
HUGO BOSS

BOSS
HUGO BOSS

Modern
Sophisticated
Premium

BOSS Black is HUGO BOSS' core brand and stands for contemporary modern elegance. The product range encompasses a women's and a men's collection with businesswear, sportswear and glamorous event styles. The premium line is also supplemented with shoes and accessories as well as licensed eyewear, watches, fragrances and a children's collection.

BOSS SELECTION
HUGO BOSS

Modern
Authentic
Luxurious

BOSS Selection impresses with its individual combination of exquisite design, exclusive quality and perfect workmanship. The luxury line offers apparel, shoes and accessories for sophisticated fashion- and style-conscious men. The Tailored Line, which is largely handcrafted, rounds off the high-quality product range.


BOSS

BOSS
HUGO BOSS

Sportive
Relaxed
Energetic

BOSS Green represents premium sportswear and does away with the boundaries between fashionable leisurewear and functional golf-wear. The collection combines fashion, lifestyle and golf and offers expressive looks in strong colors for men and, since 2010, also for women.

BOSS ORANGE

Casual
Urban Chic
Contemporary

BOSS Orange is HUGO BOSS' casualwear line and stands for a lighthearted, easygoing attitude. The casual collections are characterized by urban influences and are aimed at men and women who emphasize their own individual fashion style. Shoes and accessories, as well as licensed watches, eyewear and fragrances complete the look.

HUGO
HUGO BOSS

Progressive
Avant-garde
Contemporary

HUGO is the progressive trendy brand of HUGO BOSS and stands for avant-garde design. The women's and men's collections captivate with their clean lines and innovative looks. The product range is rounded off with shoes and accessories as well as licensed eyewear and fragrances.

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TO OUR SHAREHOLDERS

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02 TO OUR SHAREHOLDERS

LETTER TO SHAREHOLDERS

Dear Shareholders,
Dear Readers,

HUGO BOSS can look back on a successful 2010 year in which it set new record marks for both sales and earnings. We have emerged from the global economic crisis in a far stronger position. As such, our organization has established an excellent platform for further growth in the years ahead.

The dynamic development of our own retail operations offers particular cause for optimism. The powerful sales growth at our existing stores more than validates our decision to invest more heavily in this distribution channel. It is here that we can showcase our brands to optimum effect while communicating a clear understanding of our brand philosophy to partners and consumers. The efficiency of our investments in this area is also growing by the day.

The advantages of this business model are not, however, purely financial. Having our own retail operations also enables us to gather key insights into our customers' purchasing behavior that we can then factor into the collection development equation. During the past year, we therefore initiated significant measures designed to shorten the collection development process. This will allow us to adjust our collection cycle and produce four major collections a year – offering customers a continuous stream of incentives to visit our stores. Our wholesale partners will also gain from this change, which will give us a significant competitive edge in the premium and luxury segments on the global fashion market.

Not to forget our five brands, the heart of our organization. HUGO BOSS aspires to meet the diverse demands of its customers by delivering high-quality fashion with a perfect fit. More than ever before, our brands – each with its own clearly delineated profile – stand surety for this pledge. Since its relaunch, BOSS Orange has become synonymous with casual fashions fusing urban chic with premium quality. Our highest-selling brand BOSS Black now offers a winning sportswear collection in addition to its traditionally strong tailored looks. Golfwear-oriented BOSS Green has extended its established success in men's fashion to womenswear as well. And while the avant-garde HUGO has consolidated its standing in the design segment, BOSS Selection with its distinctive new image is being firmly anchored as a modern luxury brand with authentic appeal.

In more and more countries, BOSS Selection above all is currently cementing our status as a first-class clothier in the finest traditions of European tailoring. In China, most notably, I can see huge potential in the luxury segment. HUGO BOSS is already expanding faster there than anywhere else in the world. Last year our currency-adjusted growth in China reached 84%. We are now operating 65 of our own stores in this growth market – substantially more than many of our direct competitors. And we will continue to invest in enlarging our retail network with the result that China will likely become the third largest HUGO BOSS market by the end of this year.
Needless to say, HUGO BOSS will also be expanding in other regions, with the United States a leading case in point. By offering compelling value for money, we have secured additional market share and will continue to do so in the future.

The past year has been the best in the history of HUGO BOSS to date. And I feel certain we will be echoing these words in 12 months from now; 2011 too will be another growth year. Our brands are stronger than at any time in the past. Our momentum in both the wholesale sector and our own retailing operations remains unchecked. And our organization has greater performance potential than ever before.

This success is first and foremost the achievement of our employees. They embody the creativity and quality that epitomizes HUGO BOSS and its products. I would therefore like to express our gratitude to them, as I would to our business partners and shareholders who have placed their faith in us. Together, we will demonstrate the same energy and confidence in 2011 and write a new chapter in the success story that is HUGO BOSS.

Sincerely yours,

CLAUS-DIETRICH LAHRS
CEO and Chairman of the Managing Board

MANAGING BOARD

CLAUS-DIETRICH LAHRS Stuttgart, Germany	Chairman of the Managing Board Responsible for Distribution, Retail, Licenses, Communication and Global Replenishment
CHRISTOPH AUHAGEN Ratingen, Germany	Responsible for Brand Management, Creative Management, Sourcing and Manufacturing
MARK LANGER Stuttgart, Germany	Responsible for Controlling, Investor Relations, Finance, Legal, Human Resources, Logistics and IT Director for Labor Relations Member of the Managing Board since January 15, 2010

(from left to right) Christoph Auhagen, Claus-Dietrich Lahrs, Mark Langer

SUPERVISORY BOARD

DR. HELLMUT ALBRECHT Munich, Germany	Management Consultant Chariman of the Supervisory Board
ANTONIO SIMINA Metzingen, Germany	Tailor/Chairman of the Works Council HUGO BOSS AG, Metzingen, Germany Deputy Chairman of the Supervisory Board Employee representative
GIANLUCA ANDENA Lodi, Italy	Managing Director Permira Associati S.p.A., Milan, Italy until February 20, 2010
GERT BAUER Reutlingen, Germany	First Authorized Representative of the German Metalworkers' Union (IG Metall), Reutlingen/Tübingen, Germany Employee representative
HELMUT BRUST Bad Urach, Germany	Director Outlet Germany HUGO BOSS AG, Metzingen, Germany Employee representative
FABRIZIO CARRETTI Milan, Italy	Principal Permira Associati S.p.A., Milan, Italy until February 20, 2010
OLAF KOCH Ingersheim, Germany	Chief Financial Officer Metro AG, Düsseldorf, Germany until February 20, 2010
ULRICH GASSE Bad Soden, Germany	Attorney at law, Principal Permira Beteiligungsberatung GmbH, Frankfurt/Main, Germany until February 20, 2010
SUSANNE GREGOR Reutlingen, Germany	Head of OPR Clothing Man HUGO BOSS AG, Metzingen, Germany Employee representative until June 21, 2010

BERND SIMBECK Metzingen, Germany	Administrative employee HUGO BOSS AG, Metzingen, Germany Employee representative since June 21, 2010
SINAN PISKIN Metzingen, Germany	Administrative employee HUGO BOSS AG, Metzingen, Germany Employee representative
DR. MARTIN WECKWERTH Frankfurt/Main, Germany	Partner Permira Beteiligungsberatung GmbH, Frankfurt/Main, Germany
MONIKA LERSMACHER Kornwestheim, Germany	Secretary of the German Metalworkers' Union IG Metall Area Headquarters, Baden-Württemberg, Stuttgart, Germany Employee representative
DAMON MARCUS BUFFINI Surrey, Great Britain	Managing Director Permira Advisers LLP, London, Great Britain since February 21, 2010
LUCA MARZOTTO Venice, Italy	Chief Executive Officer Zignago Holding S.p.A., Fossalta di Portogruaro, Italy since February 21, 2010
GAETANO MARZOTTO Milan, Italy	Chairman of the Supervisory Board Gruppo Santa Margherita S.p.A., Fossalta di Portogruaro, Italy since February 21, 2010
DR. KLAUS MAIER Stuttgart, Germany	Management Consultant since February 21, 2010

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

Once again, the Supervisory Board continued to take great care in fiscal year 2010 in fulfilling its monitoring and advisory duties as established under the law, the Company's Articles of Association and its Bylaws.

On the basis of the detailed verbal and written reports of the Managing Board, which were issued in a timely manner and in a comprehensive fashion, the Supervisory Board supported the work of the Managing Board in an advisory capacity in fiscal year 2010 and monitored its management of the Company. Moreover, the Chairman of the Managing Board and the Chairman of the Supervisory Board held regular discussions on key developments and upcoming decisions. In this context the Supervisory Board was always kept informed of the intended business policy and other fundamental aspects of corporate planning, in particular financial, investment and human resource planning, in respect of both HUGO BOSS AG and the Group companies. The same applies to the strategic development, business progress - in particular sales and the Company's position - and the development of the key financial figures, particularly the profitability of the Company and, above all, its equity. Any deviations from forecasts and targets were explained individually to the Supervisory Board and reviewed by means of the documentation presented. The Managing Board and Supervisory Board jointly agreed on the Company's strategic orientation.

If decisions or measures taken by the Managing Board required authorization on the basis of the law, the Articles of Association or the Bylaws, the proposed resolutions - prepared by the committees in some cases - were discussed, reviewed and resolved by the Supervisory Board at its meetings. If necessary, authorizations were issued only after asking for clarification from the Managing Board and extensively discussing the mater with the members of the Managing Board. In urgent cases, the Supervisory Board created resolutions under the circulation procedure. The Supervisory Board was directly involved at an early stage in all decisions of fundamental significance for the Company. Furthermore, the economic situation as described in the Managing Board's reports as well as the development prospects of the Group were always subject to careful discussion in the Supervisory Board.

CHANGES IN THE SUPERVISORY BOARD OF HUGO BOSS AG

In 2010 votes took place for both the shareholders representatives, at the Annual Shareholders' Meeting on June 21, and for the employee representatives. Following the Annual Shareholders' Meeting on June 21, 2010, Dr. Hellmut Albrecht was again elected as Chairman of the Supervisory Board, as in 2009. Ms. Monika Lersmacher was elected to the Supervisory Board by the employees after being judicially appointed in July 2009 to take the place of Mr. Rainer Otto, who had left the Board due to illness. In addition, Mr. Bernd Simbeck was newly elected to the Supervisory Board as an employee representative.

CHANGES IN THE MANAGING BOARD OF HUGO BOSS AG

There were two changes in the Managing Board of HUGO BOSS AG in fiscal year 2010. Mr. Norbert Unterharnscheidt resigned from the Managing Board as of January 15, 2010. In his place, Mr. Mark Langer was appointed a member of the Managing Board and at the same time to the post of Chief Financial Officer (CFO) and Director for Labor Relations. Dr. Andreas Stockert also resigned from the Managing Board and as Chief Operating Officer (COO) as of August 6, 2010.

The Supervisory Board would like to thank all the departing members of the Managing Board and wishes them much success in the future.

MAIN TOPICS OF THE SUPERVISORY BOARD MEETINGS IN 2010

In fiscal year 2010, a total of five ordinary and five extraordinary Supervisory Board meetings were held in the months of January, February, March, June, July, August, September, November and December. The Supervisory Board was complete in most of the meetings. No member of the Supervisory Board attended less than half of its meetings held in fiscal year 2010.

The Supervisory Board regularly discussed the sales and earnings developments, investment planning and the Company's current risk situation. It also dealt in particular with the further internationalization of business, compliance issues, and the changes to the Corporate Governance Code and possible consequences for corporate governance at the Company. At the extraordinary meetings, the Supervisory Board mainly discussed appointments to the Managing Board and Managing Board matters as well as the reorganization of variable remuneration for Managing Board members.

COMMITTEES OF THE SUPERVISORY BOARD AND THEIR WORK IN 2010

In order to perform its duties efficiently, the Supervisory Board has created a total of five committees: an Audit Committee, a Working Committee, a Personnel Committee, a Nomination Committee and a Mediation Committee. The Supervisory Board's decision-making power is transferred to committees where legally permissible. The committees comprehensively addressed the respective topics assigned to them and the chairs of the respective committees always reported in detail to the Supervisory Board on the committee meetings and their results.

The Audit Committee met four times in fiscal year 2010. The main subjects of its meetings were the Company and Group accounting, the audit of the annual financial statements and the consolidated financial statements, risk management, the internal control systems, and compliance issues. The Personnel Committee held four ordinary and three extraordinary meetings, in which it focused on target agreements for the Managing Board, the remuneration of the Managing Board, particularly the variable remuneration system, and changes in the Managing Board and the corresponding contractual regulations. The Working Committee held three meetings in the year under review, in which it dealt with the annual financial statements, business situation, production, supply chain, D.R.I.V.E. project, and preparation of the Supervisory Board meetings and resolutions. The Nomination Committee met once at the beginning of the fiscal year and dealt in detail with the proposals for new elections of shareholder representatives to the Supervisory Board, particularly in view of the new rules on inclusion of at least one independent member with professional knowledge of accounting or auditing, and on diversity. As in the previous years, the Mediation Committee pursuant to Section 27 Paragraph 3 of the German Co-Determination Act (MitbestG) did not need to convene in the past fiscal year.

CORPORATE GOVERNANCE

The Supervisory Board discussed in detail the further development of corporate governance regulations at the Company, taking into account the changes to and content of the German Corporate Governance Code (GCGC). In December 2010, the Managing Board and Supervisory Board issued a new declaration of compliance pursuant to Section 161 Paragraph 1 Sentence 1 of the German Stock Corporation Act (AktG) on adherence to the recommendations of the Corporate Governance Code at HUGO BOSS AG. The joint report on corporate governance at the Company pursuant to Section 3.10 of the German Corporate Governance Code can be found on page 47. As in the previous years, a review of the efficiency of the Supervisory Board's activities - as recommended by the Corporate Governance Code - was conducted by means of a standardized, comprehensive questionnaire. The results were discussed in detail and analyzed at the Supervisory Board meeting on December 10, 2010, and the Supervisory Board arrived at a positive conclusion.

Conflicts of interest relating to Managing Board or Supervisory Board members, which are to be immediately disclosed to the Supervisory Board and about which the Annual Shareholders' Meeting must be informed in accordance with the Corporate Governance Code, did not occur in fiscal year 2010.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart, reviewed the annual financial statements of HUGO BOSS AG and the management report for fiscal year 2010 along with the consolidated financial statements and the Group management report for fiscal year 2010 prepared by the Managing Board including the accounting records. The corresponding audit engagement had been awarded by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual Shareholders' Meeting held on June 21, 2010. This included an agreement by the auditor to inform the Chairman of the Audit Committee immediately during the audit of any grounds for disqualification or partiality that could not be immediately rectified. There was also an agreement with the auditor to immediately report all findings and incidents of which they become aware during the course of the audit that are of significance to the duties of the Supervisory Board. The Auditors also had to inform the Supervisory Board or make a note in the audit report if any facts were ascertained during the audit that would result in the declaration submitted by the Managing Board and the Supervisory Board in accordance with Section 161 Paragraph 1 Sentence 1of the Stock Corporation Act (AktG) not being correct. There was, however, no cause for any such report by the auditor. In addition, the Supervisory Board obtained the auditor's declaration of independence pursuant to Section 7.2.1 of the German Corporate Governance Code and assured itself of the auditor's independence. Commissioning non-audit related services to the auditors was also discussed.

The consolidated financial statements of HUGO BOSS AG were prepared pursuant to Section 315a of the German Commercial Code (HGB) on the basis of the International Financial Reporting Standards (IFRS) as applicable in the European Union. The external auditor issued an unqualified audit opinion for both the annual financial statements including the management report as well as the consolidated financial statements including the Group management report.

The report on relations with affiliated companies prepared by the Managing Board was also reviewed by the auditors. The auditors issued the following audit opinion on this report:

"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 had at its disposal the audit records and the Managing Board proposal for the appropriation of profits as well as the two audit reports from the external auditors, including the report on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act (AktG) and the auditor's audit of the dependent company report. These documents were initially discussed and reviewed in detail by the Audit Committee and the entire Supervisory Board in the presence of the external auditors, who reported on their audit findings. The auditors reported on their main audit findings and commented in detail on the net assets, financial position and earnings situation of the Company and the Group. The auditors further reported that there were no substantial weaknesses in the internal control system and risk management system in respect of the accounting process. They also reported that no occasion had arisen to cause concern about any bias on their part or services that they provided in addition to their audit work. The questions posed by the Supervisory Board and its committees at such time were answered, and the audit records were examined in detail with the auditors and discussed and reviewed by the Supervisory Board and its committees. The audit reports were discussed with the auditors and the related questions were answered by the auditors. The auditors' findings were subsequently approved. After a final review, the Supervisory Board raised no objections.

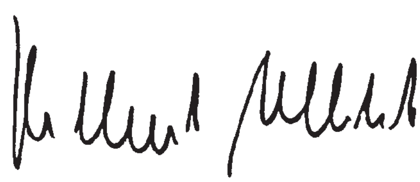
At its financial review meeting on March 14, 2011, the Supervisory Board therefore approved the annual financial statements, the consolidated financial statements, and the corresponding management reports for fiscal year 2010 as prepared by the Managing Board. The annual financial statements of HUGO BOSS AG are thus deemed approved in accordance with Section 172 of the Stock Corporation Act (AktG).

The report on relations with affiliated companies reviewed by the Audit Committee and the Supervisory Board, and the audit report prepared by the auditors on this report were approved by the Supervisory Board. After a final review, no objections were raised to the Managing Board's statement at the end of the report on relations with affiliated companies.

Finally, the Supervisory Board approved in its meeting on March 14, 2011 the proposal of the Managing Board for the appropriation of profits. In this context the Supervisory Board held intensive discussions on the liquidity situation of the Company, the financing of planned investments and the impact on the capital market. In the course of the discussions, the Supervisory Board came to the conclusion that the proposal was in the best interests of the Company and its shareholders.

The Supervisory Board would like to thank all employees for their high level of personal commitment and the work they performed, without which HUGO BOSS AG's success in fiscal year 2010 would not have been possible.

Metzingen, March 14, 2011
The Supervisory Board



DR. HELLMUT ALBRECHT
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

pursuant to Section 3.10 of the German Corporate Governance Code

Corporate governance has always counted highly at HUGO BOSS AG. The Managing and Supervisory Boards consider it their obligation to ensure the ongoing existence of the Company and the creation of sustained value added through responsible long-term corporate governance. HUGO BOSS is convinced that good and transparent corporate governance in compliance with national and international standards is a significant factor contributing to the Company's long-term success. Corporate governance is accordingly part of the Group's identity and comprises all areas of the Company and the Group. HUGO BOSS wants to justify the confidence of investors, financial markets, business partners, employees and the public on a lasting basis and continues to develop corporate governance within the Group.

In 2010, HUGO BOSS AG continued to follow recognized standards for good, responsible corporate governance

In the fiscal year 2010, the Managing Board and Supervisory Board discussed in detail fulfilling the requirements of the German Corporate Governance Code (GCGC), and particularly the changes resulting from the latest amendment to the Code. As a result, the Declaration of Compliance was submitted in December 2010. It is included at the end of this report and published on the HUGO BOSS AG website, as are previous Declarations of Compliance. HUGO BOSS complies with all of the Code's recommendations with few exceptions. The Code was last amended by the Government Commission on the German Corporate Governance Code on May 26, 2010 and announced on July 2, 2010. You will find details on this in the following report by the Managing Board and Supervisory Board.

COOPERATION, COMPOSITION (INCLUDING DIVERSITY) AND ACTIVITIES OF THE MANAGING BOARD AND SUPERVISORY BOARD

Cooperation

In the interests of the Company, the Managing and Supervisory Boards work closely together. **BOTH SHARE THE GOAL OF INCREASING ENTERPRISE VALUE IN A SUSTAINABLE WAY.** To this end, the Managing Board reports regularly, comprehensively, and promptly to the Supervisory Board on all issues of significance to the budget, business performance, risk exposure, and risk management as well as on topics involving compliance. Any deviations from targets and the budget are discussed with the Supervisory Board and its committees, and the strategic orientation and development of the Group is coordinated and discussed with the Supervisory Board.

Composition (including Diversity)

When **SELECTING THE SUPERVISORY BOARD MEMBERS**, care was and is taken to ensure that the Supervisory Board committees are composed of members who possess the requisite knowledge, skills and professional experience. HUGO BOSS has long applied the requirement for the members of its Supervisory Board to be independent, as is stressed in the German Corporate Governance Code. None of the current Supervisory Board members has previously occupied a management position within the Company. Likewise, no consulting agreements or other contracts for work and services were entered into between Supervisory Board members and the Company in the year under review.

The Company also strives to achieve diversity in the composition of the Supervisory Board: The Supervisory Board of HUGO BOSS AG consists of 12 members, six of whom are shareholder representatives and six employee representatives in accordance with the provisions of the German Co-Determination Act (MitbestG). Pursuant to the recommendations of the German Corporate Governance Code in the version dated May 26, 2010, the Supervisory Board of a listed company must specify concrete targets for its composition. Targets should consider the Company's international activities, potential conflicts of interest, a retirement age for Supervisory Board members and diversity issues, taking into account the business situation. In particular, these concrete targets must stipulate a suitable level of representation of women. The targets set by the Supervisory Board and the implementation status should be published in the Corporate Governance Report. In addition, the new version of the GCGC also gives concrete form to the previous recommendation for more diversity in the Managing Boards of listed companies such that the Supervisory Board must endeavor to ensure in particular suitable representation of women in the composition of the Managing Board.

In view of these recommendations, the Supervisory Board has established - in addition to the existing regulations in the Supervisory Board's bylaws - the following targets for the future composition of the Supervisory Board and Managing Board:

COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board must be composed in such a way that overall its members possess the requisite knowledge, skills and professional experience to perform their duties properly. The following applies in particular:

1. Internationality

As a global maker of fashion and lifestyle products, HUGO BOSS has approximately 1,500 monobrand stores in more than 80 countries. There are subsidiaries in 23 countries and production sites in 5 countries. The Supervisory Board takes this international activity into consideration in its composition.

Therefore, where possible at least two Supervisory Board members should have several years of experience in international business operations, ideally acquired abroad. Depending on the development of HUGO BOSS AG's international business, the internationality already existing in the Supervisory Board should be adjusted further if necessary in the coming years.

2. Potential conflicts of interest

The Supervisory Board also takes into account potential conflicts of interest of Supervisory Board members in its composition. Each member of the Supervisory Board therefore undertakes to comply with the recommendations and suggestions of the German Corporate Governance Codex with regard to conflicts of interest for the duration of his or her term in office, and in particular to disclose any conflicts of interest. Before the annual Declaration of Compliance is issued, each Supervisory Board member will also make a declaration to the Chairman of the Supervisory Board that no conflicts of interest arose in his or her regard in the past year. Supervisory Board members must not hold an executive position at major competitors of the Company.

3. Standard retirement age

The Supervisory Board takes into account the standard retirement age specified in the Articles of Association in its composition. This stipulates that Supervisory Board members generally should not yet have reached the age of 69 at the time of their appointment. If a candidate is proposed for the Supervisory Board who has exceeded this standard retirement age, the reasons for this must be given.

4. Diversity

In determining its composition, the Supervisory Board primarily takes care to ensure the appropriate skills and also diversity, and endeavors to attain a suitable level of representation of women. There is currently one woman on the Supervisory Board. A periodic vote for the shareholder representatives is due to take place at the Annual Shareholders' Meeting in 2015 and the periodic vote for employee representatives will also be held in 2015. The target is to have at least 2 women (i.e. 16.6% of the members) on the Supervisory Board following these votes. In view of the composition of the rest of the management as well as of other companies in the sector, the Supervisory Board considers this level of representation of women to be adequate for this period. The Supervisory Board will take this target into account when proposing candidates for the shareholder representatives on the Supervisory Board. The same applies in the case of appointment by court order.

Employee diversity is described in more detail in "Employees" on page 80 et seq.

COMPOSITION OF THE MANAGING BOARD

The Managing Board of HUGO BOSS AG currently consists of three male members. The Supervisory Board will in future strive to achieve diversity and in particular suitable representation of women in the composition of the Managing Board. This goal is also taken into account by the Personnel Committee in its activities.

The new version of the German Corporate Governance Code also stipulates that the Managing Board must give consideration to diversity in filling management positions in the company and in particular must strive to achieve suitable representation of women. The Managing Board is committed to this goal. It has already taken care to ensure diversity among the employees and suitable representation of women to date and will continue to do so in future.

Activities of the members of the Managing Board and Supervisory Board

The members of the Managing and Supervisory Boards may not pursue any personal interests or grant any unfair advantages to other persons in connection with their activities or when making decisions. In the fiscal year 2010 there were no conflicts of interest of Managing or Supervisory Board members. The persons holding seats on the Managing and Supervisory Boards are listed in the notes under "Supervisory Board and Managing Board". The positions held by Managing and Supervisory Board members in supervisory boards required by law or comparable domestic or foreign monitoring bodies at commercial enterprises may be found on page 238. No member of the Managing Board takes up more than three supervisory board positions at non-Group listed companies. The relationships with related parties (companies and individuals) are listed in the notes to the consolidated financial statements on page 213.

The positions held by the Managing and Supervisory Boards can be found in the notes to the consolidated financial statements on page 238.

Details regarding related party transactions can be found in note no. 34 of the notes to the consolidated financial statements on page 213.

RESPONSIBLE HANDLING OF ENTREPRENEURIAL RISKS

Corporate governance also comprises responsible handling of risks by the Company. It is the responsibility of the Managing Board to provide for appropriate risk management and risk control in the Company. The value-based Group management involves a systematic risk management process that allows the Company to identify and measure risks at an early stage and to optimize risk exposure using appropriate measures. The Audit Committee set up by the Supervisory Board is regularly involved in monitoring the effectiveness of internal control, risk management and auditing systems. The systems are continuously developed and adjusted to changing overall conditions. However, they cannot provide absolute protection against losses from business transactions or even fraudulent activities.

The risk report can be found on page 126 et seq.

Details on the topic of the internal control, risk management and auditing system can be found in the Risk Report on pages 126 et seq.

ACCOUNTING AND AUDITING

Since fiscal year 2001, HUGO BOSS AG has been reporting in accordance with the **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**. The Audit Committee set up by the Supervisory Board is regularly involved in the accounting process and monitoring the audit. With respect to the year under review, the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart, agreed to inform the Chairman of the Audit Committee immediately during the audit of any grounds for disqualification or partiality in case they are not immediately rectified. The auditor was also required to immediately report all findings and incidents of which they become aware during the course of the audit that are of significance to the duties of the Supervisory Board. Moreover, it was agreed that the auditor must inform the Supervisory Board or make a note in the audit report if any facts are ascertained during the audit that do not correspond with the Declaration of Compliance submitted by the Managing Board and the Supervisory Board in accordance with Section 161 of the German Stock Corporation Act (AktG). The Supervisory Board also obtained a declaration of independence from the auditor pursuant to Section 7.2.1 of the German Corporate Governance Code and satisfied itself of the auditor's independence, with the declaration also relating to commissioning non-audit related services to the auditor.

CORPORATE COMPLIANCE AS A MAJOR RESPONSIBILITY OF THE MANAGING BOARD

HUGO BOSS AG and the Group companies operate in many different countries and regions and therefore in different legal systems. Corporate compliance, meaning measures to which HUGO BOSS has committed itself to ensure adherence to legal and official regulations, the Company's internal guidelines as well as codes, and their observance by Group companies, is seen as a major responsibility of the Managing Board at HUGO BOSS. This includes – amongst others – antitrust and corruption regulations as well as provisions under capital markets law.

To support the Managing Board in introducing and monitoring an effective compliance management system, a Compliance department was established in 2010 which is responsible for Group-wide coordination of corporate compliance.

HUGO BOSS AG expects all employees to act in a legally unobjectionable way in day-to-day business operations. To facilitate this and to form a relevant basis, in 2010 HUGO BOSS compiled the Group-wide integrity principles in a Code of Conduct and in guidelines which will be implemented gradually throughout the Group over the course of 2011. The Code of Conduct and the guidelines focus in particular on regulations on competitive conduct, on avoiding corruption and conflicts of interest, on dealing correctly with company information and on ensuring fair and respectful working conditions. The employees are familiarized with the relevant regulations on an ongoing basis in training sessions.

For support and advice on questions regarding legally correct behavior, employees can turn to their superiors or the Compliance Officer.

TRANSPARENT COMMUNICATION WITH SHAREHOLDERS

In order to ensure the highest possible degree of transparency and thus to reinforce the trust placed in the Group by shareholders and investors as well as the interested public, the Company reports regularly and promptly on the situation of the Company and any major operational changes. The investor relations activities involve a regular exchange with institutional investors and financial analysts. In addition to the yearly analyst conference on the annual financial statements, telephone conferences are held for financial analysts upon publication of the interim reports on the first and third quarters as well as the half year results. The presentations prepared for these events or for investor conferences may be viewed on the Internet at www.hugoboss.com.

WWW — www.hugoboss.com / The Company / Investor Relations

For private shareholders, the **ANNUAL SHAREHOLDERS' MEETING** is the most important investor relations event of the year. The Annual Shareholders' Meeting serves to provide all shareholders with current and comprehensive information in an efficient manner. If shareholders are not able to attend the Annual Shareholders' Meeting in person, they have the opportunity to follow the transmission of the speech of the Chairman of the Managing Board on the Internet. They may either cast their vote themselves at the meeting or by proxy via an authorized person of their choice or a representative of the Company acting as per their instructions.

All key information and publications can be viewed on the Company website at www.hugoboss.com. The site includes a **FINANCIAL CALENDAR**, which shows the most important dates, is updated on an ongoing basis and is a fixed component of the annual report and the interim reports. All **PRESS RELEASES AND AD-HOC ANNOUNCEMENTS** as well as information on current developments are also published on the website. Ad-hoc announcements pursuant to Section 15 of the German Securities Trading Act (WpHG) that directly relate to the Company are published immediately by HUGO BOSS in accordance with the statutory provisions and can be viewed in "News and Releases" under the "Investor Relations" heading on the Company's website. The same is possible for voting rights notifications. In line with the principle of fair disclosure, it is hence ensured that all shareholders and major target groups are treated equally and that new information is provided to all shareholders and the interested public at the same time. Lastly, those who are interested can find information on new developments in the Group in an electronic newsletter.

Pursuant to Section 15a of the Securities Trading Act (WpHG), members of the Managing and Supervisory Boards as well as employees with management responsibilities as defined in the Securities Trading Act (WpHG) are required to disclose the purchase or sale of HUGO BOSS AG securities - called directors' dealings. Directors' dealings are published on the Company website under "Directors' Dealings". During the reporting period from January 1 to December 31, 2010, no securities transactions were reported to the Company pursuant to Section 15a of the Securities Trading Act (WpHG). As of December 31, 2010, the total holding in HUGO BOSS AG shares by all Managing and Supervisory Board members amounted to less than 1% of the shares issued by the Company. Thus as of this date, there were no shareholdings subject to the reporting requirements of Section 6.6 of the German Corporate Governance Code.

The compensation of the Managing and Supervisory Boards is detailed on page 122.

COMPENSATION OF THE MANAGING AND SUPERVISORY BOARDS

Compensation of the Managing Board

Compensation for members of the Managing Board in fiscal year 2010 totaled EUR 3,248 thousand (2009: EUR 4,927 thousand). EUR 3,248 thousand of this amount (2009: EUR 2,642 thousand) relates to fixed components. The annual variable components were removed in 2010 and amounted to EUR 0 thousand in 2010 (2009: EUR 2,285 thousand) due to the switch to variable compensation components with a medium-term incentive effect. The fixed salary components paid to members of the Managing Board comprise, besides the salary, benefits such as company cars and other benefits in kind forming part of the salary, as well as other equipment and services necessary for Managing Board members to fulfill their duties.

The variable compensation components with a long-term incentive effect consist of a multi-year bonus granted in line with the achievement of personal targets agreed with the Supervisory Board and the fulfillment of the pre-defined key figures EBITDA before special items and trade net working capital. This multi-year bonus will be calculated conclusively and paid out after the end of fiscal year 2012. Advance payments of the bonus expected in 2013 are made starting from 2011. If the amount of the outstanding payment in 2013 is negative, this must be repaid to HUGO BOSS AG by the Managing Board member. Additions to the provision for the multi-year bonus are made proportionally. A provision of EUR 3,025 thousand was recognized for fiscal year 2010 (2009: EUR 0 thousand).

Managing Board members holding office as of the reporting date are not eligible to participate in the "Stock Appreciation Rights Program". In the event of early or regular termination of their duties, Managing Board members are not entitled to payments.

In addition, the Company has provided pension benefits for Managing Board members. The amount of future pension benefits is based on each member's base salary and years of service. In 2010, additions to pension provisions for Managing Board members (excluding deferred compensation) amounted to EUR 1,964 thousand (2009: EUR 1,015 thousand).

Compensation of the Supervisory Board

According to the German Corporate Governance Code, the compensation of Supervisory Board members is divided into a fixed and a variable component. The variable compensation component is determined on the basis of earnings per share. The position of the chairman of the Supervisory Board and his deputy are taken into account when determining the level of compensation. The Supervisory Board received total compensation of EUR 1,224 thousand for its services in 2009. For fiscal year 2010, total compensation is expected to be EUR 1.461 thousand, including a provision for the variable component of EUR 738 thousand (2009: EUR 695 thousand) calculated on the basis of earnings per share.

DECLARATION OF COMPLIANCE

Pursuant to Section 161 Paragraph 1 Sentence 1 of the German Stock Corporation Act (AktG), the Managing Board and Supervisory Board of HUGO BOSS AG must submit an annual Declaration of Compliance stating whether the recommendations published by the Government Commission on the German Corporate Governance Code in the official section of the electronic Federal Gazette have been and are being complied with. The Declaration must also state which recommendations were not or are not complied with and the reasons for this. The latest amendments to the German Corporate Governance Code in the version dated May 26, 2010 were published in the electronic Federal

Gazette on July 2, 2010. The Managing Board and Supervisory Board accordingly submitted the following Declaration of Compliance in December 2010:

„Declaration of Compliance

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

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

The Managing Board and Supervisory Board of HUGO BOSS AG herewith declare pursuant to section 161 para. 1 sentence 1 AktG (German Stock Corporation Act) that since the Compliance Declaration of April 2010 the recommendations of the Government Commission "German Corporate Governance Code" initially as amended on June 18, 2009 – officially published in the electronic Federal Gazette on August 05, 2009 – and since its effectiveness in the version as amended on May 26, 2010 – officially published in the electronic Federal Gazette on July 02, 2010 – have been and are complied with except for:

- Section 2.1.2 German Corporate Governance Code („GCGC"): In addition to ordinary shares with voting rights at HUGO BOSS AG there are also preference shares without voting rights. This division has historic reasons.

- Deviating from the recommendation in section 3.8 sentence 5 GCGC, the D&O(Directors&Officers)-insurance for members of the Supervisory Board does not contain a deductible. HUGO BOSS AG covers the D&O-risk via an appropriate liability insurance in which also members of the Supervisory Board are included. The members of the Supervisory Board hold there offices responsibly and in the interest of the Company. HUGO BOSS AG is of the opinion that a deductible is no appropriate means for further improving the sense of responsibility. Further, the introduction of a deductible would not lead to a significant reduction of premium payments.

- Deviating from the recommendation in section 4.2.3 para. 4 sentence 2 GCGC, the calculation of the severance pay cap is based on the total compensation of the past full financial year or, if the member of the Managing Board has already served on the board for two full financial years, on the average of the past two full financial years because the Supervisory Board is of the opinion that this constitutes a broader and therefore better basis for assessment.

- Deviating from section 5.4.6 para. 3 GCGC the compensation of the members of the Supervisory Board is not reported individually in the Corporate Governance Report. Also, payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided individually, in particular, advisory or agency services, are not listed on an individual basis in the Corporate Governance Report. The compensation paid to the members of the Supervisory Board is demonstrated in total in the notes. In the view of HUGO BOSS AG, individual reporting of compensation in the Corporate Governance Report does not provide information relevant to the capital market.

Metzingen, December 2010"

HUGO BOSS – KEY SHARE DATA

	2010	2009
Number of shares outstanding	**70,400,000**	**70,400,000**
Common shares	35,860,000	35,860,000
Preferred shares	34,540,000	34,540,000
Share price in EUR[1]		
Common shares		
last (12/31)	49.23	20.22
high	49.52	23.15
low	17.78	8.82
Preferred shares		
last (12/31)	56.50	24.55
high	56.52	28.60
low	22.38	9.03
Market capitalization in EUR million (12/31)	**3,717**	**1,573**
Earnings per share in EUR		
Common share	2.69	1.50
Preferred share	2.70	1.51
Price/earnings ratio[2]	21	16
Amount distributed in EUR million	**140**[3]	**67**
Payout ratio in %[4]	**75**[3]	**64**
Dividend per share in EUR		
Common share	2.02[3]	0.96
Preferred share	2.03[3]	0.97
Dividend yield in %[2]	**3.6**[3]	**4.0**

1 Xetra.
2 Based on closing prices of preferred share.
3 2010: Dividend proposal.
4 Based on consolidated net profit attributable to shareholders.

TYPE OF SHARE: NO-PAR-VALUE SHARES

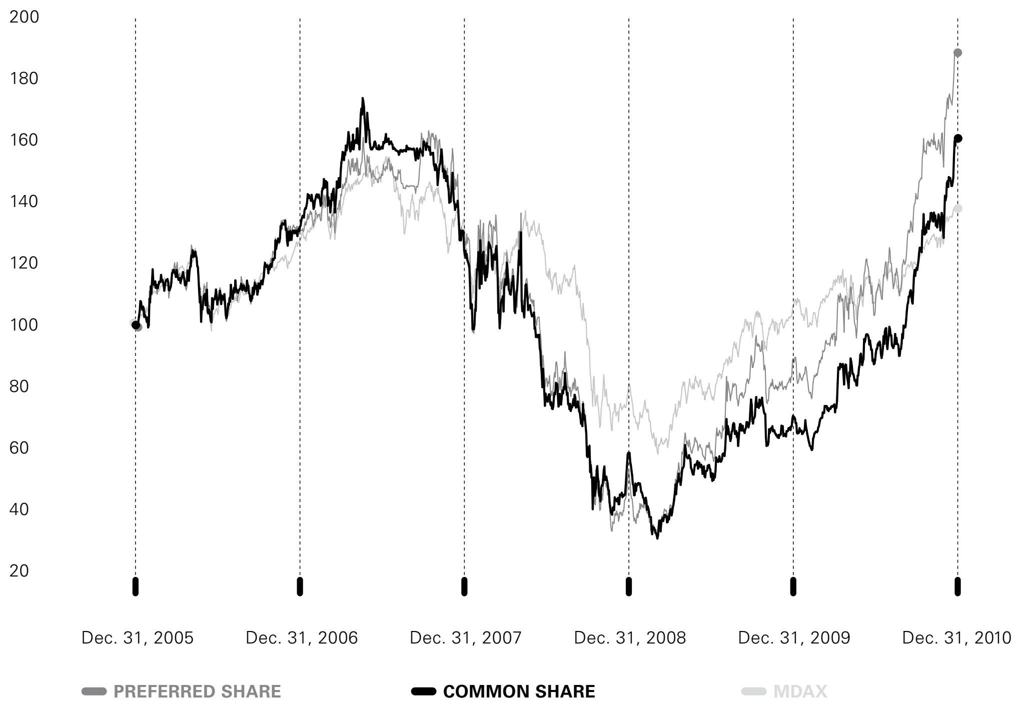
	Security ID Number (WKN)	International Securities Identification Number (ISIN)
Common share	524550	DE 000 524 55 00
Preferred share	524553	DE 000 524 55 34

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

HUGO BOSS ON THE CAPITAL MARKET

After a mixed performance in the first half of 2010, the German stock indices increased noticeably in the second half. HUGO BOSS shares gained in value considerably over the course of the year and performed better than the overall market.

01 — SHARE PRICE PERFORMANCE (Index: December 2005 = 100)



NOTICEABLE RECOVERY ON THE EQUITY MARKETS DURING THE YEAR

The recovery on the equity markets, which had already become noticeable in the previous year, continued over the course of 2010. However, the markets initially had a mixed start to the past trading year and were particularly influenced by the euro crisis. Disappointing U.S. labor market and economic data and the increasingly restrictive monetary policy of emerging economies, such as China in particular, put an additional strain on the markets. Nonetheless, indices increased in the first half of the year, due in part to the monetary and fiscal policy measures taken by central banks and governments to stimulate the economy. In the second half of the year, financial markets were boosted by the brightening economic situation in the U.S., robust economic data in China and Germany and surprisingly positive corporate earnings. After a weak second quarter, a strong reporting season in the third quarter led to substantial gains. The German stock indices also ended the fourth quarter with increases thanks to the noticeable recovery of the German economy.

HUGO BOSS SHARES REACH YEARLY HIGH IN DECEMBER 2010

HUGO BOSS shares performed considerably better than the market in the course of 2010. The price of the **HUGO BOSS PREFERRED SHARES** climbed to its annual high of EUR 56.52 just before the end of the year, while the value of the **HUGO BOSS COMMON SHARES** also reached its annual high of EUR 49.52 at the end of December. The performance of the HUGO BOSS shares in the past year reflected growing confidence in the Group's strategic positioning as well as the development of sales and profits which was better than originally anticipated by financial markets. Current analyst studies also show increasing confidence with regard to the achievement of the Group's goals for 2015.

Overall, the **DAX** rose by 16% in the period from January to December 2010. German second-tier stock also developed very positively, with the **MDAX** gaining 35% over the course of the year. The shares of companies in the fashion and luxury goods industry also posted increases in 2010. For instance, the **MSCI WORLD TEXTILES, APPAREL & LUXURY GOODS INDEX**, which maps the performance of competitors operating in the area of apparel and luxury goods, showed a rise in value of 44%. The HUGO BOSS shares considerably outperformed the benchmark indices in the past year. The price of the **HUGO BOSS PREFERRED SHARES** rose by 130%, closing at EUR 56.50 on December 30, 2010. The price of the **HUGO BOSS COMMON SHARES** rose by 144% since year-end 2009, closing at EUR 49.23 on December 30, 2010.

WEIGHTING OF HUGO BOSS PREFERRED SHARES IN MDAX INCREASES

At the end of December 2010, the HUGO BOSS preferred share took 38th place in the Deutsche Börse ranking on the basis of free float adjusted market capitalization (end of 2009: 50th place). In terms of its trading volume, it was ranked 41st (end of 2009: 46th). The weighting of the **HUGO BOSS PREFERRED SHARES** in the MDAX was thus 1.0% at the end of the year (2009: 0.6%). The average daily trading volume for preferred shares in the twelve months of 2010 was 81,517 shares (2009: 92,719). The common shares, which are traded much less due to the lower free float, recorded an average trading volume of 12,061 per day (2009: 6,995).

Change in %	**1 year**	**3 years**	**5 years**	**10 years**
HUGO BOSS preferred share[1]	130.1	44.9	90.2	88.3
HUGO BOSS common share[1]	143.5	24.3	61.4	89.4
MDAX	34.9	2.7	38.5	116.6
MSCI World Textiles, Apparel & Luxury Goods	43.7	27.7	71.2	153.6

1 Xetra, without consideration of reinvested dividend payments.

02 — MARKET CAPITALIZATION AT YEAR-END – 5-YEAR-COMPARISON (in EUR million)

ONE VOTING RIGHTS ANNOUNCEMENT RECEIVED

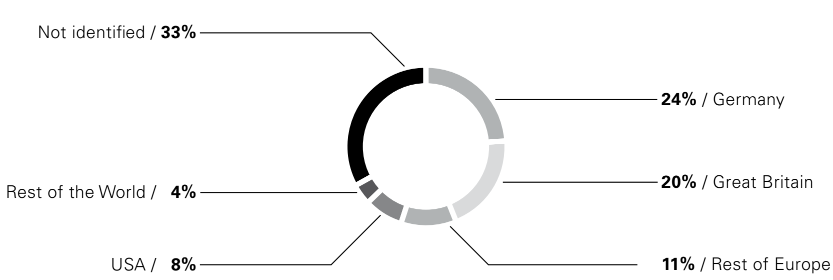
In accordance with Section 21 of the Securities Trading Act (WpHG), shareholders are required to report the level of their shareholdings if they exceed or fall below certain thresholds. The thresholds for reporting are 3%, 5%, 10%, 20%, 25%, 30%, 50% and 75%. The Company received one such announcement in the fiscal year 2010:

In accordance with the voting rights announcement received on March 24, 2010, Permira Holdings Limited, Guernsey, no longer holds its voting rights via the subsidiary V.F.G. International N.V., Amersfoort. Since March 23, 2010, the voting rights are held by Permira Holdings Limited, Guernsey, via the subsidiary Red & Black Holding GmbH (formerly Blitz F09-vier-sechs GmbH), Munich. In total the Company holds 31,563,471 common shares and 19,092,841 preferred shares. This is equivalent to 88.02% of the common shares and 55.28% of the preferred shares, and therefore 71.95% of the total share capital of HUGO BOSS AG.

ANNUAL SHAREHOLDERS' MEETING ISSUES NEW AUTHORIZATION FOR SHARE BUYBACK PROGRAM

The Annual Shareholders' Meeting on June 21, 2010 authorized the Managing Board of HUGO BOSS AG to continue the existing share buyback program in fiscal year 2010. In accordance with this, the Managing Board is authorized until June 20, 2015 to purchase bearer common and/or non-voting bearer preferred shares of HUGO BOSS AG up to an overall maximum of 10% of its outstanding capital. No use was made of the authorization granted in the past fiscal year.

03 — REGIONAL SPLIT OF FREE FLOAT INVESTOR BASE (as of December 2010)



HUGO BOSS AG therefore continues to hold 528,555 common treasury shares and 855,278 preferred treasury shares. This corresponds to a share of 1.97% or EUR 1,383,833 of the share capital.

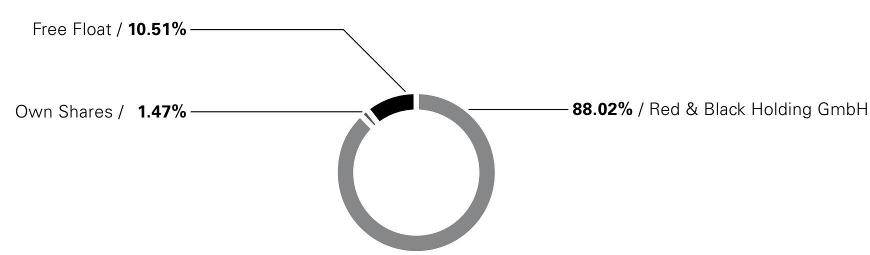
EUROPE FORMS FOCUS OF INVESTOR BASE

The shareholder structure of the total share capital of HUGO BOSS AG is made up as follows: 71.95% of the outstanding shares are held by **PERMIRA HOLDINGS LIMITED** via Red & Black Holding GmbH and 1.97% of the shares are held by **HUGO BOSS AG** as treasury shares. The remaining 26.08% of the outstanding shares are in **FREE FLOAT**. In 2010, the free float remained unchanged compared to 2009. To allow for the selective targeting of institutional investors in HUGO BOSS, an analysis of the shareholder structure of the shares in free float was performed in 2010. The results show that slightly over half of the shares in free float are held by European investors. Just under a tenth of the shares are held by American investors. For a third of the free float, the investors are not known. This category also includes the group of private shareholders.

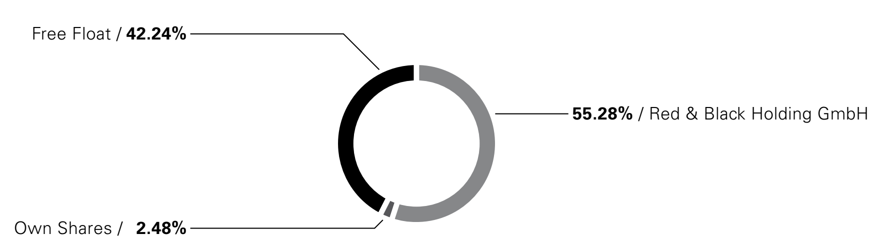
NO DIRECTORS' DEALINGS

During the reporting period from January 1 to December 31, 2010, no securities transactions in Company shares were reported to the Company by the Managing Board or Supervisory Board. In total, members of the Managing Board and the Supervisory Board hold less than 1% of the shares issued by HUGO BOSS AG.

04/1 — SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2010 – HUGO BOSS COMMON SHARES



04/2 — SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2010 – HUGO BOSS PREFERRED SHARES



MANAGEMENT INTENDS TO PROPOSE DIVIDEND OF EUR 2.03 PER PREFERRED SHARE

HUGO BOSS pursues a profit-based dividend policy under which the shareholders participate appropriately in the Group's profit development. On the basis of the significant increase in profit in the past fiscal year and the positive expectations for 2011, the Managing Board and Supervisory Board intend to propose to the Annual Shareholders' Meeting on May 10, 2011 a dividend of **EUR 2.03 PER PREFERRED SHARE** (2009: EUR 0.97) and **EUR 2.02 PER COMMON SHARE** (2009: EUR 0.96). The proposal corresponds to a payout ratio of 75% of consolidated net income attributable to shareholders in 2010 (2009: 64%). Provided the shareholders approve the proposal, the dividend will be paid out on the day following the Annual Shareholders' Meeting, i.e. on May 11, 2011. Based on the number of shares outstanding at the end of the year, the amount distributed will total EUR 140 million (2009: EUR 67 million).

NO CORPORATE BONDS ISSUED

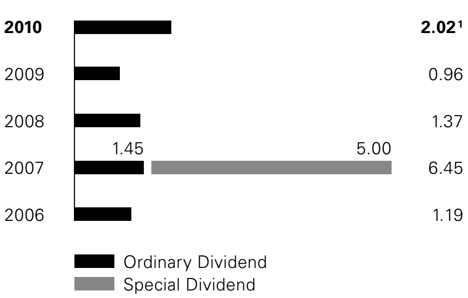
As in previous years, HUGO BOSS AG did not issue any bonds during the period from January 1 to December 31, 2010. At the end of 2010 there were therefore no outstanding corporate bonds of HUGO BOSS AG. The Group also does not have a rating from an external rating agency.

TRANSPARENT AND OPEN COMMUNICATION AS THE GOAL OF INVESTOR RELATIONS ACTIVITIES

For HUGO BOSS, good capital market and corporate communication means communicating current developments within the Company promptly and transparently, thereby strengthening the confidence of capital market participants and the public in the Group. In 2010, the Managing Board and the Investor Relations department were therefore in regular dialog with existing and potential institutional investors and private shareholders so as to inform them of the Company's development. The Internet is also a valuable instrument for communicating with institutional investors, private shareholders and the interested public. The Investor Relations website of HUGO BOSS AG provides current financial reports, company presentations, press releases, the financial calendar and contact details for the Investor Relations department, in addition to general information and key figures of the Company.

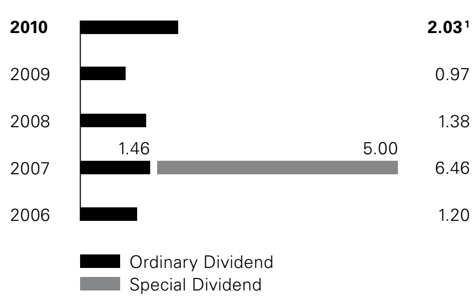
WWW —
www.hugoboss.com / The Company / Investor Relations

05/1 — DIVIDEND PER COMMON SHARE (in EUR)



1 2010: Proposed Dividend.

05/2 — DIVIDEND PER PREFERRED SHARE (in EUR)



1 2010: Proposed Dividend.

03

GROUP MANAGEMENT REPORT

GROUP PROFILE

CONTENTS

03 GROUP MANAGEMENT REPORT – GROUP PROFILE

BUSINESS ACTIVITIES AND GROUP STRUCTURE

HUGO BOSS strives to strengthen and expand its position as one of the global market leaders in the premium and luxury segment of the global apparel market. The Group, which is based in Metzingen in Germany and employs a workforce of approximately 10,000, generated annual sales of EUR 1.7 billion in fiscal year 2010 and is among the world's most profitable apparel manufacturers.

FACTS

The organization of the sourcing and production activities is illustrated in more detail in "Sourcing and Production" on page 86 et seq.

An overview of the brands' positioning can be found in figure 15 on page 76.

The HUGO BOSS Group is one of the world market leaders in the premium fashion and luxury segment of the apparel market. The Group focuses on developing and marketing high-end women's and men's fashion. The products are predominantly manufactured by independent suppliers.

With its brand world including the **CORE BRAND BOSS** and the **TRENDY BRAND HUGO**, HUGO BOSS targets different, clearly differentiated consumer groups. The brands cover an extensive product range consisting of classic-modern business wear, elegant evening and relaxed casual fashion, shoes and leather accessories, as well as licensed fragrances, eyewear, watches, children's fashion and motorcycle helmets.

BOSS Black (68% of Group sales)
BOSS Black is HUGO BOSS' core brand and stands for contemporary modern elegance. The product range encompasses a women's and a men's collection with businesswear, sportswear and glamorous event styles. The premium line is also supplemented with shoes and accessories as well as licensed eyewear, watches, fragrances and a children's collection.

BOSS Selection (3% of Group sales)
BOSS Selection impresses with its individual combination of exquisite design, exclusive quality and perfect workmanship. The luxury line offers apparel, shoes and accessories for sophisticated fashion- and style-conscious men. The Tailored Line, which is largely handcrafted, rounds off the high-quality product range.

BOSS Green (5% of Group sales)
BOSS Green represents premium sportswear and does away with the boundaries between fashionable leisurewear and functional golf-wear. The collection combines fashion, lifestyle and golf and offers expressive looks in strong colors for men and, since 2010, also for women.

BOSS Orange (15% of Group sales)
BOSS Orange is HUGO BOSS' casualwear line and stands for a lighthearted, easygoing attitude. The casual collections are characterized by urban influences and are aimed at men and women who emphasize their own individual fashion style. Shoes and accessories, as well as licensed watches, eyewear and fragrances complete the look.

HUGO (9% of Group sales)
HUGO is the progressive trendy brand of HUGO BOSS and stands for avant-garde design. The women's and men's collections captivate with their clean lines and innovative looks. The product range is rounded off with shoes and accessories as well as licensed eyewear and fragrances.

Intensive marketing activities and involvement in **SPONSORSHIP OF SPORT AND CULTURAL EVENTS** enhance the worldwide recognition of HUGO BOSS and the image of its brands. Alongside traditional forms of advertising such as print and out-of-home, the relevant target groups are increasingly targeted through new marketing instruments such as social networks. **SPORT SPONSORSHIP** activities focus on premium sports such as sailing, golf and Formula 1 and are an ideal vehicle for conveying brand values such as dynamics, perfection and precision. In its **CULTURAL SPONSORSHIP ACTIVITIES**, the Group stresses the similarities between art and fashion in terms of design, aesthetics and creativity. The Company also sets a course with high profile **FASHION EVENTS** in the world's fashion capitals, further highlighting the appeal and acceptance of the Group's brands for key target groups and charging the HUGO BOSS brand world with emotion.

HUGO BOSS sells its products in **124 COUNTRIES** worldwide. The most important sales region is **EUROPE**, with 62% of Group sales in the fiscal year 2010. **AMERICA** accounted for 22% of sales and **ASIA** for 13%. 3% of Group revenues were generated by royalties. Today customers can purchase HUGO BOSS products at more than **6,100 POINTS OF SALE**. In addition to multi-brand points of sale operated by wholesale partners, the importance of monobrand points of sale is growing significantly. HUGO BOSS stores are operated both by franchise partners and by the Group itself. As a result of pushing forward own retail activities, the number of own retail stores rose by 99 to 537 last year. Therefore in the fiscal year 2010 40% of sales were generated in the Group's own retail business. The number of stores operated via franchisees amounts to approximately 1,000. This brings the total number of monobrand stores in the HUGO BOSS Group to more than 1,500 in over 80 countries.

An overview of the global market presence can be found in figure 09 on page 68.

06 — BRAND OVERVIEW

BOSS **BLACK**	BOSS **SELECTION**	BOSS **GREEN**	BOSS **ORANGE**	**HUGO**
Menswear	Menswear	Menswear	Menswear	Menswear
Womenswear	Accessories	Womenswear	Womenswear	Womenswear
Accessories		Accessories	Accessories	Accessories
Kidswear				

LEGAL STRUCTURE OF THE GROUP

Further information on cooperation, composition and activities of the Managing and Supervisory Boards is provided in the „Corporate Governance Report“ on page 47 et seq.

The Group is managed by HUGO BOSS AG; based in Metzingen, Germany, as the parent company where all of the central management functions are bundled. As a German stock corporation (Aktiengesellschaft), HUGO BOSS AG has a dual management and control structure. The Managing Board is responsible for managing the Group, while the Supervisory Board advises the Managing Board and oversees its management of the Company.

A detailed overview of the HUGO BOSS Group's shareholdings and further explanation on the Group's legal structure are given in note no. 40 of the notes to the consolidated financial statements on page 220 et seq.

In addition to HUGO BOSS AG, the Group consists of **54 CONSOLIDATED SUBSIDIARIES**, which run local business operations. **36 SUBSIDIARIES** are organized as **DISTRIBUTION COMPANIES**. With the exception of its joint venture in China, all subsidiaries are fully controlled by HUGO BOSS AG. All subsidiaries are run as independent profit centers and thus bear the responsibility for profits.

ORGANIZATIONAL STRUCTURE

Information on the Managing Board can be found on page 38.

The HUGO BOSS Group has given itself a **REGIONALLY ORIENTED STRUCTURE** and combined its local business operations into three regional organizations: **EUROPE** including the Middle East and Africa, **AMERICAS**, and the **ASIA/PACIFIC** region. Responsibility for the central functions is divided between the different Managing Board areas. In particular, the Managing Board holds responsibility for the Group strategy. The management and collection development for all brands are also based at the Group headquarters. In order to take into account the individuality of the different Group brands, each brand has an independent brand and creative management under the leadership of a director. Within the core brand BOSS Black there are also separate areas of responsibility for womenswear and sportswear. Further responsibilities based at the Group headquarters include retail management, sourcing, logistics and IT, Human Resources management, financial management including corporate financing, and risk management. Besides internal communication, HUGO BOSS AG is also especially responsible for external communication, including maintaining relations with the capital markets.

07 — HUGO BOSS ORGANIZATIONAL STRUCTURE

MANAGING BOARD

Sourcing, production and logistics
Finance and controlling
IT
Communication
Own retail
Brand and creative management
Human resources
Legal

EUROPE
incl. Middle East and Africa

AMERICAS

ASIA/PACIFIC

In the three regional organizations, the Group strategy is implemented in the respective market environment in close coordination with the Managing Board and under the leadership of the relevant regional director. Working together with the country managers within their region, the directors are responsible in particular for the regional design of the wholesale and retail sales strategy and for the development of sales and earnings. The regionalization of the sales structures strengthens the Group's proximity to its customers and improves its ability to react to market developments and to adapt to market-specific features. It also allows for fast exchange of best practices through close integration of the national companies.

08 — KEY LOCATIONS

METZINGEN, GERMANY	Group headquarters, development and pattern design, production (samples, prototypes, individual orders, special series)
	Outlet
	Raw material warehouse
	Garments on hangers warehouse
BAD URACH	Outlet warehouse
FRICKENHAUSEN	Flat packed goods warehouse
WENDLINGEN	Flat packed goods warehouse
HONG KONG	Headquarters Asia/Pacific
MORROVALLE, ITALY	Development and production (prototypes, shoes and bags)
SCANDICCI	Pattern design
RADOM, POLAND	Production (shoes)
COLDRERIO, SWITZERLAND	Develoment and pattern design
IZMIR, TURKEY	Production (suits, trousers, jackets, shirts, ready-to-wear womenswear)
CLEVELAND, USA	Production (suits)
MIDWAY	Warehouse
NEW YORK	Headquarters Americas

09 – GLOBAL MARKET PRESENCE

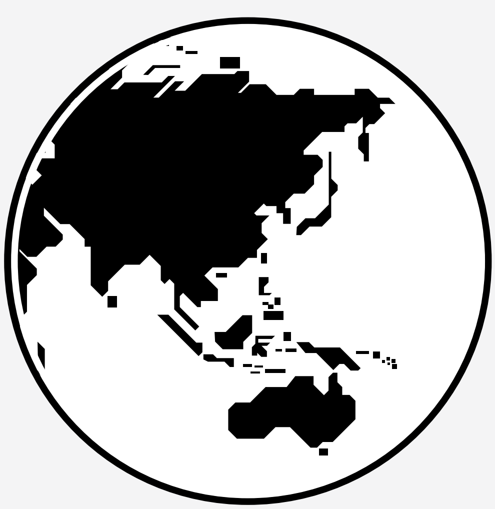
2010

EUROPE [1]

~	4,500	Points of sale
	253	Own retail stores
	19	Showrooms
~	750	Franchise stores

AMERICAS

~	1,200	Points of sale
	113	Own retail stores
	2	Showrooms
~	100	Franchise stores



ASIA/PACIFIC

~	450	Points of sale
	171	Own retail stores
	2	Showrooms
~	150	Franchise stores

1 Including Middle East/Africa.

GROUP MANAGEMENT

The goal of HUGO BOSS management is to generate a sustainable increase in enterprise value. The Group's internal management system supports the Managing Board and the management of the business units in aligning all Group processes with this goal.

CORPORATE GOVERNANCE STATEMENT (PURSUANT TO SECTION 289a OF THE GERMAN COMMERCIAL CODE (HGB))

The corporate governance report (pursuant to Section 289a of the German Commercial Code (HGB)) contains the declaration of compliance, information on Group management practices as well as the description of the functions of the Managing and Supervisory Boards. This statement is published on the HUGO BOSS website at "Investor Relations/Corporate Governance".

WWW —
www.hugoboss.com / The Company / Investor Relations / Corporate Governance

MANAGING BOARD AS A WHOLE RESPONSIBLE FOR GROUP MANAGEMENT

The HUGO BOSS Group is managed by the Managing Board as a whole, which in particular determines the Group's strategic orientation. Operational implementation of the Group strategy takes place in close cooperation with the regional directors and the heads of the central functions. The organizational and management structure clearly allocates authorizations and responsibilities within the Group and defines the reporting lines. It thus directs all Group resources towards sustainably increasing enterprise value.

Further information on the strategic orientation can be found in chapter "Group Strategy" on page 73 et seq.

FOCUS ON INCREASING FREE CASH FLOW

To increase enterprise value, the Group focuses on maximizing free cash flow. A permanent positive free cash flow ensures the Group's financial independence and its solvency at all times. The main levers for improving free cash flow consist of increasing sales and operating income, defined as EBITDA (earnings before interest, taxes, depreciation and amortization) before special items. The free cash flow development is also supported by systematic management of net working capital and disciplined investment activity.

The definition of free cash flow can be found in figure 11 on page 70.

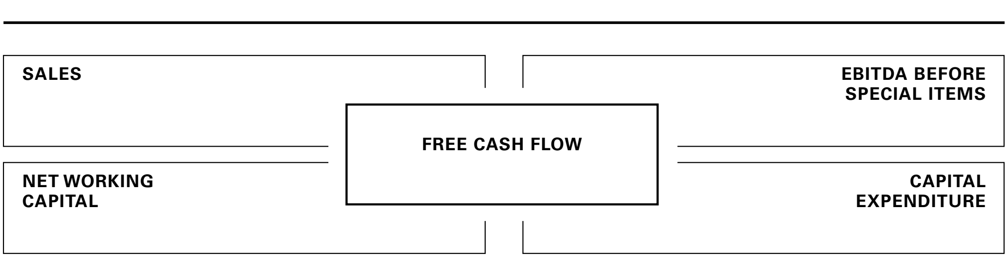
The development of cash flow is discussed on page 117 et seq. in the Group management report.

SALES AND EBITDA MOST IMPORTANT METRICS FOR GROUP MANAGEMENT

As a growth-oriented company, HUGO BOSS attaches particular importance to profitably increasing sales. All activities for increasing sales are measured by their potential to increase EBITDA before special items and the EBITDA margin (ratio of income to sales) in the long term. As a key driver of

The development of sales and EBITDA can be found in the Group management report on page 96 et seq. and page 102 et seq.

10 — KEY PERFORMANCE INDICATORS OF THE HUGO BOSS GROUP



free cash flow, EBITDA was identified as the most important key performance indicator. Improving gross margin is seen as the main lever for increasing EBITDA margin. Efficiency improvements in own retail and sourcing as well as optimization of the discount policy constitute the most important measures in this context. In addition, operating expenses are monitored strictly with the aim of limiting their increase in relation to sales to a lower than proportional level.

The management of the Group companies is directly responsible for profitable Group growth. Therefore, a portion of the total remuneration of distribution company managers is variable and tied to the achievement of sales and EBITDA targets as well as other key cash flow relevant metrics.

NET WORKING CAPITAL MANAGEMENT TO MAXIMIZE EFFICIENCY OF CAPITAL EMPLOYMENT

The calculation of net working capital is illustrated in figure 12 on page 70.

Due to HUGO BOSS' relatively non-capital-intensive business model, net working capital constitutes the key figure for maximizing efficiency in the use of capital.

The development of net working capital is discussed in the Group management report on page 113.

Managing inventories, trade receivables and trade payables is the responsibility of the operational business units. These three components are managed through the key figures of DIO (days inventories outstanding), DSO (days sales outstanding) and DPO (days payables outstanding), to which a portion of the variable remuneration of the sales units' management is tied. The ratio of net working capital to sales is an indicator of efficient use of capital in business operations and is therefore the object of management targets, planning and the business units' monthly reporting.

11 — DEFINITION FREE CASH FLOW

FREE CASH FLOW		Cash flow from operating activities
	+	Cash flow from investing activities

12 — DEFINITION NET WORKING CAPITAL

NET WORKING CAPITAL		Inventories
	+	Trade receivables
	+	Other current assets
	−	Trade payables
	−	Current provisions
	−	Other current liabilities

CAPITAL EXPENDITURES FOCUS ON OWN RETAIL

The value creation potential of proposed investment projects is assessed considering the relevant capital costs. The focus of the Group's investment activity is currently on the expansion of own retail activities. For this reason, a specific approval process has been established for projects in this area. In addition to qualitative analysis of potential locations, this process also involves in particular assessing the net present value of each project.

Further details on the Group's investment activity can be found on page 119 et seq.

THREE KEY ELEMENTS OF INTERNAL GROUP MANAGEMENT SYSTEM

The Group's planning, management and monitoring activities focus on optimizing the key performance indicators described above. The core elements of the Group's internal management system are:

- Group planning,
- the Group-wide, IT-supported reporting,
- and the investment controlling.

CONTINUOUS UPDATE OF GROUP PLANNING

Group planning relates to a rolling three-year period. It is prepared annually as part of the Group-wide budget process, taking into account the current business situation.

Based on targets set by the Group's Managing Board, the sales units draw up comprehensive earnings, balance sheet and investment planning. From this, the development and sourcing units derive their medium-term capacity planning and translate this into cost planning. The bottom-up planning of the business units is checked centrally for plausibility and aggregated into overall Group planning.

13 — DEVELOPMENT OF KEY PERFORMANCE INDICATORS (in EUR million)

	2010	2009	Change in %
SALES	1,729.4	1,561.9	11% (7% after adjustments for currency effects)
EBITDA BEFORE SPECIAL ITEMS	349.8	267.2	31%
NET WORKING CAPITAL	204.8	223.0	(8%)
CAPITAL EXPENDITURE	55.6	48.3	15%
FREE CASH FLOW	246.3	299.5	(18%)

The annual planning is revised at regular intervals with regard to the actual business development and existing risks and opportunities to arrive at an extrapolation of the expected consolidated net income in the current year. On the basis of the anticipated cash flow development, the Group Treasury Department also prepares monthly liquidity projections. This allows for early identification of financial risks and timely implementation of measures with regard to financing and investment needs. In addition, the currency-differentiated liquidity planning represents the basis, among other things, for initiating potential currency hedging measures. Detailed information on the management of financial risks is provided in the Risk Report.

The risk report can be found on page 126 et seq.

FOCUS OF GROUP-WIDE REPORTING ON ANALYSIS OF EARLY INDICATORS

The Managing Board and the management of the Group companies are informed of the operational development on a monthly basis in the form of standardized, largely IT-supported reports with differing levels of detail. The standardized reporting is supplemented with ad-hoc analyses if required. Actual data as generated by the Group-wide reporting system is compared against plan data on a monthly basis. Deviations from targets must be explained and planned countermeasures must be described. Developments with a major influence on consolidated net income must be reported to the Managing Board immediately. Particular importance is also attached to analyzing early indicators suited to provide an indication of future business development. In this context, order intake, the performance of the replenishment business and comp store sales development in own retail are analyzed on at least a weekly basis. In addition, benchmark analyses with major competitors are conducted at regular intervals.

INVESTMENT CONTROLLING SECURES GROUP PROFITABILITY TARGETS

Investment controlling assesses planned and implemented investment projects in respect of their contribution to achieving the Group's profitability targets. This means that only those projects are supported that are expected to contribute to the Group's economic performance. In regular intervals, the profitability of projects already realized is secured through subsequent analyses. In case of deviations from the profitability targets originally set, countermeasures are implemented.

GROUP STRATEGY

HUGO BOSS has set itself the goal of significantly increasing sales and profit in the next five years. The Group's strategy is built on the Company's core competence of developing and marketing high-end apparel, shoes and accessories in the premium and luxury segment. The strength of the brand portfolio as well as the creativity and motivation of the Group's employees are the prerequisite for future success. In addition, the Group has defined a growth strategy to achieve its ambitious medium-term targets and generate a sustainable increase in enterprise value. The strategy rests on four major pillars: Increasing consumer proximity, clearly differentiating Group brands, expanding own retail and internationalizing the business model.

FOCUS ON CORE COMPETENCIES SECURES STRATEGIC COMPETITIVE ADVANTAGE

The core competency of the HUGO BOSS Group is the development and marketing of high-end womenswear and menswear, shoes and leather accessories in the premium and luxury segment. High-quality materials, excellent workmanship and outstanding design are an integral part of the philosophy of the BOSS Black, BOSS Selection, BOSS Green, BOSS Orange und HUGO brands. The Group derives its strategic competitive advantage from bundling outstanding product expertise in its development activities, which are organized almost entirely within the Group, and its brand management and sales expertise. HUGO BOSS also gains critical expertise through selective use of its own production sites. This enables the Group to review the feasibility and commercial potential of its development activities on a continuous basis and to profitably manage the external supplier network. Sales activities focus primarily on two channels: In its **WHOLESALE ACTIVITIES**, the Group sells its products to multi-brand distributors or franchise partners which operate HUGO BOSS stores in line with the requirements of the Group. In the **GROUP'S OWN RETAIL ACTIVITIES**, products are sold directly to the end consumers in directly operated stores, in outlets and via the HUGO BOSS online store.

→ —
The organization of the sourcing and production activities is illustrated in more detail in "Sourcing and Production" on page 86 et seq.

WWW —
www.hugoboss.com / Online Store

MULTI-BRAND STRATEGY FOR TARGETING INDIVIDUAL CONSUMER SEGMENTS

The premium and luxury segment of the global clothing market targets demanding consumers with a variety of attitudes and requirements which may vary significantly depending on the individual and the situation. HUGO BOSS takes this into account with brands that each focus on clearly defined target groups. Overall, the individual brands complement one another to form a portfolio which ensures wide-reaching coverage of the relevant market segment for the HUGO BOSS Group.

PROMOTING A PERFORMANCE-ORIENTED CORPORATE CULTURE

Further information on the employees can be found in "Employees" on page 79 et seq.

The future market success of the Group depends to a large extent on its employees. HUGO BOSS therefore strives to create a working environment which encourages creativity and cooperation among the employees. A large number of measures and development programs are in place to promote the employees' professional and social skills. At the same time, the compensation system is organized such that it helps to create a performance-oriented corporate culture and thus gears the employees' work towards achievement of the Group's goals. The pace of the premium and luxury sector also requires a high degree of adaptability to changing conditions. Particular attention is therefore given to promoting employees' readiness to accept changes.

GROWTH STRATEGY FOR ACHIEVING THE LONG-TERM FINANCIAL TARGETS DEFINED

Details on the Group's outlook can be found on page 141 et seq.

HUGO BOSS has set itself the goal of generating a significant increase in sales and profit through organic growth in the coming years. The target for 2015 is Group sales of EUR 2.5 billion and operating income of EUR 500 million. The management therefore reviewed the Group's strategic orientation in the past fiscal year and identified key elements for ensuring future profitable growth. Increased consumer proximity, clear differentiation between the brands, expansion of own retail business and internationalization of the business model form the basis for the targeted growth.

Increase in consumer proximity

A thorough understanding of the consumers' needs is the most important requirement for the future growth of the Group. The growing commercial importance of own retail increases the need to gear collection development even more strongly towards the end customer and the optimization of sales area productivity.

Through systematic, IT-supported analysis of its products' sales success, the Group can draw important conclusions for developing the collections that follow. Reacting quickly to market developments is essential here. Accordingly, as part of the D.R.I.V.E. project the Group has set itself the goal of significantly reducing the time span between the start of collection development and delivery of the finished product. By streamlining and standardizing operational processes in product development, sales and production, the **DEVELOPMENT PERIOD** is to be shortened from the current 50 weeks to **38 WEEKS**. Stronger interconnection of the different elements of the value chain is actively promoted here. For instance, production considerations are to be incorporated into the development process at an earlier stage. Optimizing the complexity of the product range also contributes to reducing the time to market. For this purpose, a core product range consisting of products with high sales potential and major importance to the collection statement has already been introduced.

14 — KEY ELEMENTS OF GROWTH STRATEGY

Increase in consumer proximity	Clear differentiation between the Group's brands	Expansion of own retail business	Increased internationalization of the business model

Upon implementation of the project, the Group will be able to apply knowledge gained from sales in one season directly in the development of the following collection. A shorter time to market also allows for the **COLLECTION CYCLE** to be changed to four almost equally sized collections per year. HUGO BOSS will thus be able to better gear the product range at the point of sale towards seasonal differences in consumer demand and to offer new incentives to buy on a continuous basis.

HUGO BOSS expects the implementation of the D.R.I.V.E. project to result in positive effects on sales and earnings in the medium term. In particular, it anticipates an improvement in floor productivity, consumer traffic and sell-through rates in own retail. The knowledge gained in this distribution channel will also further increase the Group's appeal towards its wholesale partners. In the fiscal year 2011, the implementation of the new development processes will be a focus for all brands. The first products developed using the new process will come onto the market in the second half of the year 2011.

Clear differentiation between the Group's brands

The precise delineation of the individual brands increases external competitiveness and sharpens the **BRAND IDENTITY** from the consumers' perspective. Strict differentiation between the brands comprises the philosophy, product focus, sales and communication, ensuring that each brand focuses on strengthening its **INDIVIDUAL CORE COMPETENCIES** and targeting the relevant consumer group.

The brands of the HUGO BOSS Group are presented in more detail in "Business Activities and Group Structure" on page 64 et seq.

Sharpening the brand positioning will also be a priority in the fiscal year 2011. The focus on the different target groups encompasses collection development, sales and communication.

One important initiative in this context is the realignment of **BOSS SELECTION**. In future, the brand will be positioned as a modern and authentic luxury brand which will be differentiated even more clearly from BOSS Black, supported by a separate logo and a new corporate design. By using the very highest quality materials and focusing on perfect workmanship, the brand characterizes an exquisite style. The product range will also be expanded in the area of sportswear in particular, in order to offer consumers outfits for all occasions. The BOSS Selection brand is of major importance to the Group, especially for the Asian market, for expanding the brand position in the luxury segment of menswear.

BOSS Selection is presented in "Strong Brands".

Communicating the repositioning of **BOSS ORANGE** completed in 2010 to the end consumer will also remain a focus. Through a redesign of the brand logo, an individual shop concept and extensive image campaigns, BOSS Orange is positioning itself in the premium segment of the casual wear market. The collections, characterized by urban influences, are aimed at consumers who value an individual fashion style embodying a relaxed, easy-going attitude. BOSS Orange is thus clearly differentiated from the other Group brands.

BOSS Orange is presented in "Strong Brands".

Details on the expansion of the Group's own retail business are given on page 99 et seq.

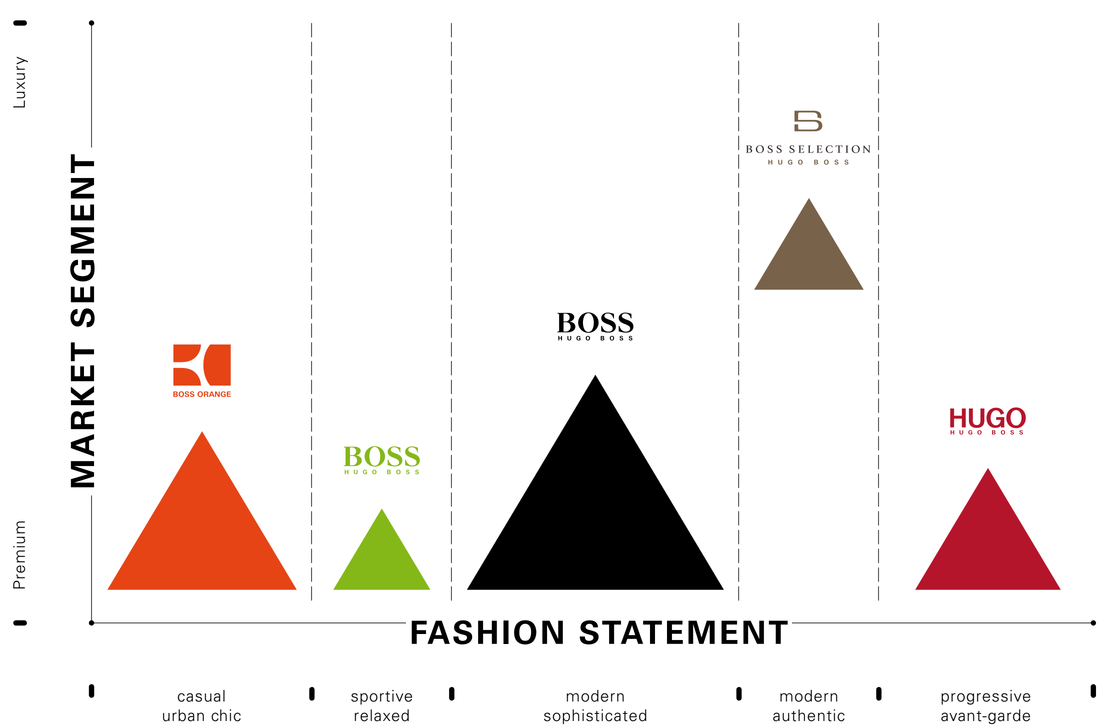
Expansion of own retail business

In the past year, own retail has become an increasingly important distribution channel and **GROWTH DRIVER**. Own retail supplements the Group's wholesale activities, in which it is aiming to realize further growth potential by deepening established customer relationships, particularly in Western Europe and North America.

There are various advantages to selling directly to the end consumer: In directly operated stores, the Group has direct **CONTROL OVER ITS BRAND IMAGE**. The clear presentation of the HUGO BOSS brand world supports the differentiated perception by the consumer beyond the individual shopping experience and strengthens brand image in a sustainable way. Wholesale customers likewise benefit from the upgrading of the Group's brands and from the knowledge that HUGO BOSS gains regarding its customers' needs and buying behavior. The Group thus increases its appeal as a partner for wholesale. In addition, own retail offers an **ATTRACTIVE RETURN POTENTIAL** as the sales margin is retained.

In many markets, monobrand formats are also the only established sales form. For instance, in the Chinese market – similarly to other emerging economies – there are virtually no multi-brand sales formats. For HUGO BOSS it is therefore essential to develop retail expertise in order to realize the market potential available in these countries.

15 — BRAND POSITIONING



Besides **DIRECTLY OPERATED STORES**, the **ONLINE BUSINESS** also represents a major growth area. After revenues more than doubled in 2010, the Group expects this channel to continue expanding significantly. The addition of new online markets such as the U.S. in 2010 will contribute to the expected growth. Consumers who visit the online stores have direct access to the HUGO BOSS brand world and the full product range without any limits in terms of time and space. HUGO BOSS strives to further improve the online shopping experience by continually optimizing user friendliness and customer service. The increasing integration of the on- and offline product ranges also offers enormous potential.

WWW —
www.hugoboss.com / Online Store

The Group expects to be able to considerably increase sales in own retail in the coming years through store expansion and comp store sales growth. The Group's growing retail expertise also enables it to independently continue managing or take over stores previously operated by franchise partners in major growth markets. HUGO BOSS anticipates that in 2015 own retail will account for approximately half of Group sales. The management also expects the further professionalization of own retail activities and economies of scale to make a significant contribution to the planned increase in the Group's profitability.

Increased internationalization of the business model

To secure long-term growth, HUGO BOSS is focusing on strengthening its market position in fast-growing future markets. Particularly appealing are those countries where the population is benefiting from a steady rise in disposable income but the market penetration of premium and luxury goods companies is still relatively low. As a result of the growing middle class, a strong increase in demand for premium and luxury goods products can generally be observed in such countries.

HUGO BOSS has identified **CHINA** as the **MOST IMPORTANT INDIVIDUAL GROWTH MARKET** on this basis. The Group anticipates that China will soon be among its three biggest markets in terms of sales. Accordingly, the relative share of Asia in Group sales will increase considerably by 2015.

In order to drive forward its growth in China, in 2010 the Group established a **JOINT VENTURE** with its longtime franchise partner Rainbow Group which included the HUGO BOSS stores previously operated as franchise. HUGO BOSS holds a majority interest of 60% in the joint venture and thus has comprehensive control over the presentation of its brands. The Group also benefits from the joint venture partner's local market knowledge and infrastructure in regions where it previously did not have own retail activities. The joint venture partner's established relationships with the developers of new shopping centers also help the Group in renting preferred store locations.

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More details on the business combination can be found in the notes to the consolidated financial statements on page 161 et seq.

In **NORTH AMERICA**, the Group sees good opportunities to gain further market share by strengthening relationships with well-established wholesale partners and by selectively expanding the Group's own retail network.

Considerable growth potential is also seen in **CENTRAL AND SOUTH AMERICA** and in other **EMERGING ECONOMIES IN ASIA**. The management in these regions is developing individual entry and penetration strategies for the different markets. In newly tapped markets, the Group generally operates initially with franchise partners with extensive local expertise, in addition to sales to wholesale partners. Only when a certain critical size has been reached does the Group consider developing its own retail infrastructure.

In the coming years, the Group expects to be able to significantly increase the share of Group sales generated in emerging economies. It anticipates that this development will have a positive impact on the profitability of the Group as a whole, as many emerging economies have higher than average profitability due to high average sales prices together with favorable cost structures.

GENERATING INCREASES IN VALUE IS AT HEART OF BUSINESS ACTIVITIES

Increasing value for the shareholders is at the heart of HUGO BOSS AG's business activities. In addition to increasing sales and earnings, HUGO BOSS optimizes free cash flow through strict management of operating working capital and disciplined investment activity, so as to support the development of the share price in the interests of the shareholders. Furthermore, shareholders benefit from the Company's profit development through an earnings-based dividend policy.

EMPLOYEES

The work of the almost 10,000 employees of the HUGO BOSS Group worldwide forms the basis of the Company's success. Every day they contribute their skills and enthusiasm for fashion to the Company, thereby contributing to the uniqueness of the products. The goal of Human Resources work at the HUGO BOSS Group is to promote team spirit and motivation among the employees in an international environment and to create a working atmosphere in which creativity and perfection can develop freely.

TARGETED PROMOTION OF THE CORPORATE CULTURE

The corporate culture of the HUGO BOSS Group is based on **TEAM SPIRIT, CREATIVITY, OPENNESS** and **TRANSPARENCY** and creates a working atmosphere in which all employees can fully develop their potential. Human Resources management at HUGO BOSS aims to fill the corporate culture with life so that each individual employee can bring his or her personal skills, commitment and enthusiasm to the Company and make his or her own contribution to the success of the entire Group.

NUMBER OF EMPLOYEES INCREASES IN 2010

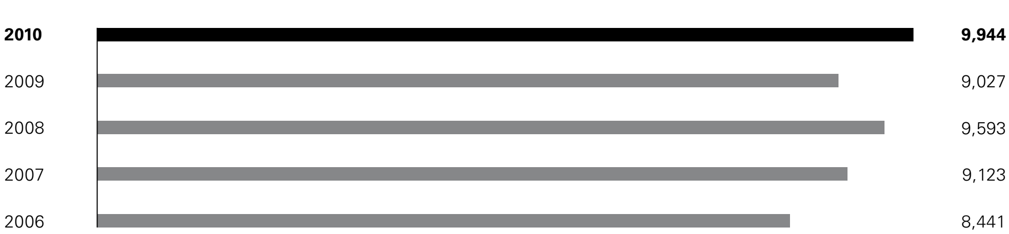
The economic success of the HUGO BOSS Group in 2010 was reflected in an extended workforce. At the end of fiscal year 2010, the total number of HUGO BOSS staff amounted to 9,944. In comparison to the previous year (9,027 employees), this number thus increased by 917 employees in absolute terms and 10% respectively. This development is due to the positive operational development and the associated higher personnel requirements, particularly in own retail.

	2010	2009
Industrial employees	4,269	4,062
Commercial and administrative employees	5,675	4,965
	9,944	**9,027**

Of the total number of employees, 43% (4,269) were employed in industrial activities and 57% (5,675) in commercial and administrative activities at the end of 2010.

Further information can be found in note no. 9 in the notes to the consolidated financial statements on page 188 et seq.

16 — EMPLOYEES AT YEAR-END – 5-YEAR-COMPARISON



HUGO BOSS THRIVES ON ITS EMPLOYEE DIVERSITY

The corporate culture at HUGO BOSS is characterized by internationality, openness and diversity. This **CULTURE OF DIVERSITY** has already gained the Company several awards from the Great Place to Work Institute. For HUGO BOSS, diversity represents not only an enrichment of the corporate culture but also a clear success factor in international competition.

More details on diversity can be found in the "Corporate Governance Report" on page 47 et seq.

79% of the Group's staff work outside of Germany. About one in five of the employees working for HUGO BOSS AG in Germany has an international background. Women account for 61% of employees in the HUGO BOSS Group. On a management level, i.e. including the top four levels, roughly 45% of positions are currently held by women. The Company thus complies with the recommendation of the German Corporate Governance Code according to which the Managing Board is supposed to aim for an appropriate consideration of women when filling managerial positions.

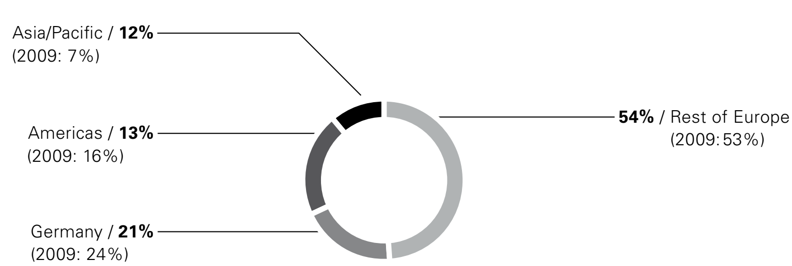
in %	**2010**
Employees total	100
Men	36
Women	64
Proportion of men in Management	55
Proportion of women in Management	45
Average age in years	33

PROMOTING YOUNG TALENT IS AN INTEGRAL PART OF THE HUMAN RESOURCES POLICY

In order to have access to a skilled employee base in the future too, it is highly important to the HUGO BOSS Group to systematically **DEVELOP** and **PROMOTE YOUNG TALENT** within the Company. For instance, each year the Company supervises a large number of apprentices, dual study students, interns, diplomates and Bachelor and Masters candidates.

Training activities at HUGO BOSS are based on demand. In the commercial area, apprenticeships are currently available for the following professions: industrial office workers, retail salesmen/women, warehouse logistics specialists and warehouse managers as well as business administration specialists for the apparel industry in cooperation with the Academy of Textile & Shoes in Nagold. HUGO BOSS also offers courses in business information systems, international business and accounting and controlling in cooperation with the University of Corporate Education Baden-Württemberg Stuttgart

17 — EMPLOYEES PER REGION AT YEAR-END



as well as courses in freight forwarding, transportation and logistics in cooperation with the University of Corporate Education Baden-Württemberg Lörrach. In the industrial and technical area, textile laboratory assistants and apparel sewers and tailors are trained so as to maintain and extend valuable knowledge in the Company.

As of December 2010 there were 77 apprentices at the Company. In 2010, 24 apprentices and students of the University of Corporate Education started their training at HUGO BOSS AG. A total of approximately 1,800 applications were received for the past training year. 23 apprentices and students of the University of Corporate Education successfully completed their apprenticeship in 2010. All were subsequently offered jobs within the Company.

In 2010 HUGO BOSS AG also offered around 190 interns the chance to gain practical experience in virtually all the Company's departments. As a "Fair Company" (an initiative by the job and business magazine "Junge Karriere"), HUGO BOSS AG offers internships primarily to provide professional orientation; the Company also pays the interns an adequate expense allowance. At the end of the internship HUGO BOSS offers very promising interns the opportunity to round off their studies by writing their thesis within the Company. In 2010, 30 theses were supervised at HUGO BOSS. This gives students the chance to independently discuss a practical issue relating to the Company while also providing added value for the Group.

In order to discover and suitably promote young talent at an early stage, the Group works together closely with fashion colleges and the organizers of creative competitions. For example, HUGO BOSS is a partner of the "APOLDA European Design Awards", an initiative of the Apolda region in Weimarer Land, Thuringia which is aimed at selected European colleges, universities and academies. HUGO BOSS is represented on the jury here and donates a cash prize of approximately EUR 5,000. In addition, since 1987 the Group has awarded the "HUGO BOSS Fashion Award" to talented young students in exclusive cooperation with the Stuttgart State Fashion School. As well as a cash prize, winners of the award are offered an internship at HUGO BOSS. This not only gives the award-winners the opportunity to gain initial practical experience and references, but also the chance to establish themselves at HUGO BOSS directly after the internship at the Group.

GROUP PREPARES ITSELF FOR THE FUTURE WITH INDIVIDUAL EMPLOYEE TRAINING AND DEVELOPMENT

The Group demonstrates its responsibility to its staff by providing systematic employee training and development based on a transparent skills model. The focus is always on the employee's individual needs and potential. Targeted measures help employees to improve their performance in their day-to-day work or to extend their knowledge beyond the day-to-day requirements. Individual development within the Group is also supported in a variety of ways: through transfers to other departments or roles, through promotion to management positions or through expansion of the employee's own area of responsibility. In addition, feedback discussions with the employee's supervisor are held on a yearly basis to document each individual's personal goals and determine the trainings requirements for achieving his or her individual learning objectives.

HUGO BOSS' personnel development philosophy is based on the assumption that well-skilled managers are the strongest and most efficient trainers. By providing qualified feedback and recognizing the development potential of their own employees, they have a direct impact on the employees' performance, motivation and satisfaction. In the area of talent management, the European Management Program for employees with promotion potential was launched in 2009. In this program, future higher-level managers take part in various practice-oriented training activities over the course of a year in order to prepare them optimally for the tasks ahead.

PERFORMANCE-ORIENTED COMPENSATION

In the HUGO BOSS Group, compensation is designed so that individual performance is rewarded fairly and transparently, promoting a culture of **MOTIVATION** and **COMMITMENT**.

The compensation of HUGO BOSS AG employees covered by a collective agreement is based on the collective agreement of the "Südwestdeutsche Bekleidungsindustrie". The compensation of staff employed in retail is based on the German retail collective agreement. The employees working in retail and sales are entitled to a fixed salary and variable compensation tied to quantitative targets. Employees who are not covered by a collective agreement receive – in addition to their base salary – a bonus that is tied to both corporate targets and qualitative and quantitative personal targets. The targets and their achievement are defined and documented transparently once a year in an appraisal interview with the employee's supervisor.

In addition to the contractually stipulated salary components, the employees are also entitled to the following benefits, among others: Depending on the distance in kilometers, each employee receives a travel allowance and has the opportunity to shop in the HUGO BOSS VIP store at a discount or to take advantage of art and cultural events in the context of the Company's sponsorship activities. Furthermore, all employees have the opportunity to train at the in-house fitness studio all year long and free of charge. In addition, employees have the option to convert part of their gross salary into pension contributions.

PROMOTION OF WORK-LIFE BALANCE

In order to promote the well-being and the performance of its employees, HUGO BOSS offers extensive **HEALTH PROGRAMS**. For example, the Company's cafeterias follow a balanced nutrition plan with menus changing daily, a wide range of fresh fruit and salad and select organic products.

For their **PHYSICAL FITNESS**, HUGO BOSS offers employees the opportunity to train at the Company's fitness studio, to participate in subsidized sports courses or to play soccer or volleyball on the Company premises. The staff demonstrated its athleticism at the **HUGO BOSS RUN** last year, for example, with 800 employees and friends of the Company proving their stamina over a distance of 7 km or 21 km.

If employees experience health problems, the Company doctor supports them with expert medical knowledge. There are also discounted rates for employees wishing to consult a licensed nutrition or to use a massage team for pain relief, preventive or wellness treatment.

To allow employees to reconcile their day-to-day working life and their family life, the Group offers a flexible **FAMILY SUPPORT MODEL**. Since 2008 the Company has been part of the Germany-wide "Erfolgsfaktor Familie" (Success Factor Family) network, a joint initiative of the Federal Ministry of Family Affairs and the German Chamber of Industry and Commerce. Together with the Works Council, the management has adopted a support model for working parents and a corresponding works agreement. To make it easier to return to work after parental leave or maternity leave, for example, there are specially reserved places in a daycare center in Metzingen for children of employees or the option to receive financial support for an alternative form of childcare.

HUGO BOSS SUPPORTS ITS EMPLOYEES' SOCIAL INVOLVEMENT

HUGO BOSS is aware of its social responsibility towards society and promotes various social projects. Many employees are personally involved in the realization of these projects. For example, around the Metzingen location the Works Council supports selected organizations, such as the support organization for children with cancer in Tübingen and the regional German Red Cross, by donating money and goods. In addition, in 2010 a Christmas wish campaign was carried out for the benefit of the school for mentally and physically disabled children in Welzheim. The Group also regularly appeals for emergency donations for crisis regions, such as for the victims of the devastating earthquake in Haiti last year.

WWW —
www.hugoboss.com /
The Company / Company /
Sustainability / Society

INNOVATION AND DEVELOPMENT

As a leading company in the fashion industry, creativity and product innovations are important success factors to HUGO BOSS. The aim of product development is to ensure sustained, modern brand management and differentiation. Continuous brand development pursues the goal of systematically tapping and extending the existing earnings potential and designing collections which can be optimally positioned on the sales floors.

INNOVATION MEETS CONSISTENCY AT HUGO BOSS

As a company that has successfully positioned itself in the premium and luxury segment of the global fashion market, it is highly important for HUGO BOSS to present the consumer with fashionable and **INNOVATIVE PRODUCTS** each season and therefore to keep offering new incentives to buy. On the other hand, the consumer also expects HUGO BOSS products to maintain the same **HIGH QUALITY**, a guaranteed **PERFECT FIT** and a **RECOGNIZABLE HANDWRITING IN DESIGN** from season to season. Development work at HUGO BOSS therefore focuses on fulfilling the standards for quality, a perfect fit and consistent brand management but also for excellent and innovative design.

DEVELOPMENT WORK FOCUSED ON FOUR DEVELOPMENT CENTERS

Innovation and development work in the HUGO BOSS Group is organized at the **FOUR DEVELOPMENT CENTERS** in Metzingen (Germany), Coldrerio (Switzerland), Morrovalle (Italy) and Scandicci (Italy). The Group's development departments are usually staffed by skilled tailors, fashion designers, shoe and clothing technicians and engineers.

An overview of the key locations of the HUGO BOSS Group can be found in figure 08 in "Business Activities and Group Structure" on page 67.

In the development center at the Company's headquarters in Metzingen, the Group uses its years of experience in industrial textile production to develop pioneering products in the core area of classic ready-to-wear for men and women. The creative department based at the competence center in Coldrerio (Switzerland) is responsible for both the creative development of the textile product groups of shirts, ties and knitwear and also the overarching management of shoes, leather accessories and bodywear. At the Italian research locations in Morrovalle and Scandicci, creative work focuses on the development of shoes and leather accessories.

Group-wide expenses in connection with the collection development process rose to EUR 47 million in the past fiscal year (2009: EUR 44 million). Main reason for this development was an increase in personnel expenses. In 2010 the number of employees in the Development and Creative teams was expanded by 4% to 445 employees (2009: 427).

CLOSE INTERACTION BETWEEN CREATIVE DEPARTMENT AND TECHNICAL DEVELOPMENT IN PRODUCT DEVELOPMENT

The innovation and development process at HUGO BOSS stands at the beginning of the value chain and therefore plays a decisive role in the subsequent production of the individual collection components. The new and continued development of HUGO BOSS products is based on the experience and expertise of all its employees, particularly its specialists working at the competence centers. Product innovations are primarily generated in creative management. In the collection development phase, color, theme, form and fabric concepts are drawn up, target prices are established and the current collection statement is defined. This process takes factors into account such as the ordering behavior of trading partners, sales data from own retail, and feedback from manufacturing companies on previous collections. From the initial idea onwards, the advantages and disadvantages of a certain product idea are weighed up. Also, the conditions under which the price formulated by the creative team can be ensured in the subsequent production are discussed.

In the second step, the Creative department hands over its sketches to the Pattern Design department, where the implementation of the creative ideas is verified in technical tailoring terms. The models are then developed into prototypes in technical development. In order to guarantee the accustomed high quality standard of the products, work here focuses on the development of innovative and high-quality manufacturing techniques and the selection of appropriate fabric. The prototypes undergo extensive tests which, among other things, provide the information on the materials' physical properties which is required for subsequent series production. Following the prototyping process is the so called sampling, i.e. the production of a sample collection and its presentation and sale to international wholesale and retail customers. Afterwards the ordered pieces are produced and sold to the end consumer, either through a wholesale partner or own retail. The sales data and the feedback received from customers on the current collection are gathered, analyzed and then taken into account in designing the next collection.

Creative management at HUGO BOSS is organized in the divisions BOSS Black Clothing (Men), BOSS Selection, BOSS Green, BOSS Black Sportswear (Men), BOSS Black Womenswear, BOSS Orange and HUGO, under the responsibility of Brand Directors.

QUALITY ASSURANCE BEGINS IN THE PRODUCT CREATION PHASE

End consumers associate HUGO BOSS products with high-quality materials, excellent workmanship and outstanding design. The product development is essential for the quality of the finished goods. An early cooperation between the Brand and Creative departments, the Pattern Designers and the technical developers is essential. In the development center in Metzingen the pattern designers, who draw the product cuts, and the product developers, who realize it technically and commercially, work together in a very early phase of product creation. As such, they have the opportunity to identify not only potential for improvement but also shortcomings in the designs at an early stage, allowing for these to be counteracted before production begins and thus assuring product quality.

Product development at HUGO BOSS is hence characterized by the intensive collaboration with suppliers and technology partners. This not only ensures a smooth subsequent production process, but also secures HUGO BOSS its competitive advantage in manufacturing technology and product quality.

→ —
The organization of the sourcing and production activities is illustrated in more detail in "Sourcing and Production" on page 86 et seq.

SOURCING AND PRODUCTION

The consumer is at the heart of the HUGO BOSS Group's business activities. Fulfilling consumer demand in both wholesale and own retail on time and in line with the highest quality standards is key to success. To achieve this goal, HUGO BOSS is constantly working on establishing fast, flexible and yet stable and error-free structures and processes within the supply chain.

MAJORITY OF PRODUCTION BY INDEPENDENT SUPPLIERS

As a company which manufactures and operates internationally, standardized, system-supported and well-coordinated purchasing and production processes are an important success factor for HUGO BOSS. Roughly 24% of the full product line is produced in HUGO BOSS' **OWN FACTORIES**; around 76% is manufactured by **INDEPENDENT SUPPLIERS** in commissioned production and as merchandise. Self-producing a significant portion of its traditional ready-to-wear clothing product range allows the Group to gain considerable expertise and optimizes quality and product availability.

An overview of the key locations of the HUGO BOSS Group can be found in figure 08 in "Business Activities and Group Structure" on page 67.

The Company's **OWN PRODUCTION SITES** are in Izmir (Turkey), the largest self-owned facility, Cleveland (USA), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). The factory in Izmir mainly produces suits, trousers, jackets, shirts and ready-to-wear womenswear. At the plant in Cleveland, HUGO BOSS produces suits for the American market. In Metzingen, the focus is on the serial production of suits, jackets and trousers. In addition, the facility manufactures prototypes, sample pieces and individual orders. Production in Radom and Morrovalle focuses on prototypes, shoes and bags.

STRATEGIC MANAGEMENT OF THE SUPPLIER NETWORK AS A SUCCESS FACTOR

In 2010, HUGO BOSS worked with roughly 300 suppliers for contract manufacturing and merchandise. The past fiscal year was characterized by the further consolidation of the supplier network and the **STRENGTHENING OF LONG-TERM PARTNERSHIPS**. Care is taken to ensure that the sourcing volume is distributed evenly across a global network of suppliers so as to spread the risk and make the Group as independent as possible of single sourcing locations and manufacturing companies.

GLOBAL DISTRIBUTION OF SOURCING ACTIVITIES

Sourcing activities relate to **RAW MATERIALS**, **CONTRACT MANUFACTURING** and **MERCHANDISE**. The sourcing of raw materials includes predominantly fabrics but also components such as linings, buttons, thread and zippers. The majority of raw materials are sourced in Europe. Fabrics are predominantly purchased from longtime suppliers in Italy. The companies which carry out contract manufacturing for HUGO BOSS are based mostly in Eastern Europe. In addition to suits, HUGO BOSS also purchases jackets and trousers from contract manufacturers. For products created in contract processing, the supplier receives the fabrics and other components to be used as well as the patterns. In contrast, sourcing of casual wear and sportswear in particular is largely based on purchased merchandise. Here, only a small proportion of goods are produced in contract manufacturing. Instead, the merchandise suppliers of the HUGO BOSS Group are given the necessary patterns but provide the raw materials themselves. Merchandise in the area of casual wear and sportswear is primarily sourced from Asia, Eastern Europe and North Africa.

About half of all HUGO BOSS products (goods produced in own factories, merchandise and goods sourced in commissioned production) are produced in Eastern Europe (including the Middle East). The own production in Turkey plays a vital role in this context. Roughly a quarter of all products comes from Asia. In this region China is the most important single sourcing country for HUGO BOSS. The rest of the goods comes from Western Europe (11%), North Africa (9%) and America (2%).

OBJECTIVE CRITERIA AS BASIS FOR SELECTING SUPPLIERS

The selection of suppliers is based on objective technical production criteria. Most important here is ensuring the highest product quality, which requires precise production techniques at the manufacturing company. In addition to the quality of the goods produced, the supplier's financial strength, cost structure, productivity and speed, available technologies and innovations as well as production expertise are considered when making the selection. The strict adherence to social and environmental standards in the manufacturing process is an indispensable prerequisite to engage into a business relation. It is also very important to HUGO BOSS that suppliers have an understanding for the products and their design that meets the high requirements of the premium and luxury goods segment.

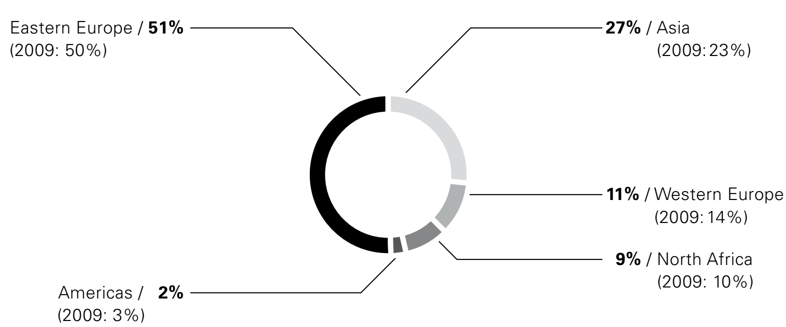
INVOLVEMENT OF SUPPLIERS IN THE PRODUCT DEVELOPMENT PROCESS

The Group pursues the strategy of working closely with its suppliers to ensure long-term partnerships. The joint development of production expertise ensures the high quality for which HUGO BOSS products are known around the world. The goal is to develop joint growth plans with a network of strategic suppliers under which capacity utilization is continually increased and order flow is smoothed as far as possible. This will be made possible in particular through the launch of four main collections planned in connection with the D.R.I.V.E. project that should result in a seasonally more balanced demand pattern. Reducing collection complexity also means that higher lots can be placed per single supplier.

Another core area of the cooperation with suppliers is promoting coordination between the manufacturing companies and the technical development department in the HUGO BOSS Group. For instance, technical production considerations are integrated in the product development process at a very early stage. The suppliers are therefore in regular contact with the creative departments, where color, theme, form and fabric concepts for the new collections are developed, and the technical development teams, where the patterns prepared by Pattern Design are further

The product development process is explained in more detail in "Innovation and Development" on page 84 et seq.

18 — REGIONAL SPLIT OF PRODUCTION AND SOURCING VOLUME



developed. Also, the suppliers' feedback on the fabrics and patterns used in past collections is taken into account in developing new designs, allowing for optimization of product quality and manufacturing efficiency.

QUALITY ASSURANCE ENCOMPASSES ENTIRE PRODUCTION PROCESS

HUGO BOSS makes very high demands on the quality of its products. In order to fulfill these, quality checks focus on where the product is created - at the supplier itself. For instance, the manufacturing companies are provided with **STANDARDIZED QUALITY AND PROCESSING HANDBOOKS** which document the requirements. The most important processes relevant to quality are also described in a process handbook and are subject to a continual optimization process with the ISO 9001 certification.

To meet the high quality standards, there is increasing use of machines which work with low tolerance and thus form the basis for minimizing sources of error in the production process. Adherence to manufacturing standards is also ensured through fixed controls which are always carried out at certain process steps in the production line. Furthermore, random checks of individual process steps are performed on a regular basis, ensuring comprehensive monitoring of each product by the manufacturing company. To optimize quality controls, the technology for the final inspection has been upgraded. More and more inspection processes are supported by hardware and software, allowing for a standardized inspection process and electronic analysis of the results. In this way, weak points in the product design and shortcomings in the production process can be identified and optimized through corresponding development activities on site.

HUGO BOSS SUPPORTS THE IMPLEMENTATION OF SUSTAINABLE CONCEPTS AT SUPPLIERS

At HUGO BOSS, sustainability is an important prerequisite for the long-term success of the Group. Sustainability is taken into account in all strategic decisions in the cooperation with suppliers. HUGO BOSS supports suppliers with strategic expertise in the development and implementation of actions to meet social and ecological requirements.

In the textile and apparel industry, sourcing takes place primarily in emerging and developing countries. In these countries, **ADHERENCE TO EMPLOYEE AND HUMAN RIGHTS** requires particular awareness and control. HUGO BOSS pledges itself and its suppliers to compliance with internationally recognized minimum labor and social law standards under the conventions of the International Labor Organization (ILO), the OECD Guidelines for International Enterprises, and the Universal Declaration of Human Rights of the United Nations. These social standards include in particular the prohibition of child labor and forced labor, equal opportunities and ensuring humane working conditions. Agreements with suppliers include regulations on minimum wages, minimum vacation and maximum working hours. If there is no national legislation, or if it is insufficient, HUGO BOSS' social standards constitute the minimum standard.

As a leading company in the global high-end fashion industry, it is a matter of course for the Group to meet its **RESPONSIBILITIES TOWARDS THE CONSUMER** as well. HUGO BOSS products must not pose health risks. To fulfill this obligation, each supplier is required to sign a written guarantee confirming its compliance with the Restricted Substances List (RSL). The RSL includes stipulations which ensure that the materials used comply with national legislation and HUGO BOSS' internal guidelines and are not harmful to health in either the production process (e.g. due to emissions) or when used. Compliance is ensured through corresponding audit processes installed along the supply chain.

04

GROUP MANAGEMENT REPORT

THE FISCAL YEAR

CONTENTS

04 — GROUP MANAGEMENT REPORT – THE FISCAL YEAR

GROUP SALES AND RESULTS OF OPERATIONS

The HUGO BOSS Group generated significant increases in sales and profit in 2010. This development was supported by the global economic recovery and the upswing in the sector. Group sales climbed 7% in local currencies and 11% in the reporting currency to EUR 1,729 million (2009: EUR 1,562 million) as a result of growth in all regions. Significant double-digit growth in the Group's own retail business more than compensated for the decline in wholesale business. EBITDA before special items increased by 31% year-on-year to EUR 350 million (2009: EUR 267 million). Key factors contributing to this development included the strong growth in the Group's own retail business, a consistent pricing strategy, and continued optimization of global production and sourcing activities.

GENERAL ECONOMIC SITUATION

In 2010 the global economy recovered from the 2009 recession. However, the upswing was sustained to a large extent by monetary and fiscal policy impetus, losing momentum in the second half of the year as the relevant support measures were reduced. Emerging economies developed much more strongly on average than industrialized nations, although the industrialized nations benefited in terms of their export activities from the growing demand from emerging economies.

In the **EUROZONE**, too, it was primarily foreign trade which supported the economic recovery. However, in the second half of the year the debt crisis and the associated austerity measures as well as the worldwide economic slowdown caused growth rates to moderate. Germany developed better than the other countries in the region, primarily due to strong export activities and increasing domestic demand.

In the **USA**, the economic upturn could not sustain itself despite unprecedented economic policy impetus. Private consumption in particular remained weak due to continued high unemployment and the price collapse in real estate. Despite higher investments and exports, the U.S. central bank was thus forced to resume monetary policy easing measures towards the end of the year. In contrast, the economy in **LATIN AMERICA** developed robustly despite a moderate slowing of the growth rates over the course of the year.

An outlook on the global economic development is given in "Subsequent Events and Outlook" on page 141 et seq.

The **ASIAN ECONOMY** saw a strong recovery, particularly in the first half of the year, before growth in industrial production and exports decreased slightly in the second half. The Chinese economy grew at a rate of around 10%, while also managing to avoid overheating tendencies through a moderate tightening of monetary policy. In Japan the weak economic recovery slowed over the course of the year as a result of the expiration of fiscal subsidies and a drop in exports.

SECTOR PERFORMANCE

The luxury goods industry recovered in 2010 from the significant decline in the previous year, growing by around 6% after adjustment for currency effects. In addition to the recovery in consumer confidence in industrialized nations, the upturn was supported primarily by strong growth in emerging economies, particularly China.

In **EUROPE**, sales growth benefited from a considerable recovery in demand in Russia and Eastern Europe. The weak euro also attracted tourists, particularly from Asia. **AMERICA** benefited from a considerable increase in confidence in the luxury goods segment. In **ASIA**, significant double-digit growth in China more than compensated for a continued weak development in Japan.

The development of the luxury goods market differed depending on the individual product category. Watches, jewelry and accessories saw strong double-digit increases following in some cases substantial declines in the previous year. The apparel segment relevant to the HUGO BOSS Group as a basis for comparison grew 8% including currency effects, with both menswear and womenswear seeing increases. Sales in menswear in particular were supported by the trend towards leisure-oriented designs.

An outlook on the development of the business sector is given in “Subsequent Events and Outlook” on page 142.

CHANGES IN THE SCOPE OF CONSOLIDATION

With effective date July 1, 2010, HUGO BOSS founded a joint venture with the Rainbow Group, a longtime franchisee in China.
HUGO BOSS International B.V., Amsterdam, Netherlands, acquired 60% of the shares in a newly founded holding company, HUGO BOSS Lotus Hong Kong Ltd., Hong Kong, holding all shares of Lotus Concept Trading (Macao) Co., Ltd., Macao and Shenzhen Lotus Trading Co., Ltd., Shenzhen, China.
After acquisition of the shares of HUGO BOSS Lotus Hong Kong Ltd., the company and its subsidiaries in Macao and Shenzhen is included in the consolidated financial statements of the HUGO BOSS Group. With the first consolidation of these companies in the third quarter of 2010, the Group’s own retail network was expanded by 28 locations in the important growth market of China and six locations in Macao, thus further increasing the share of sales of the Group’s own retail business in Asia. Moreover, the Group expects to be able to benefit from the joint venture partner’s local market knowledge, logistics infrastructure and established business relationships in choosing suitable retail locations.

Further informationen on the business combination is given on page 161 et seq.

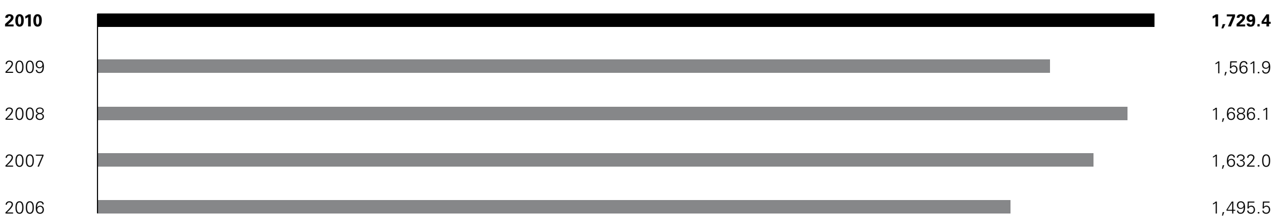
CHANGES IN REPORTING

In order to improve the measurement of operating performance, HUGO BOSS decided at the beginning of fiscal year 2010 to eliminate all foreign exchange gains and losses from sales and purchasing activities from the operating result (transaction risk). Irrespective of their origin, all effects of changes in exchange rates are now recognized in the financial result. For reasons of comparability, the cost of sales for fiscal year 2009 was adjusted accordingly, and foreign exchange gains of EUR 3 million were reclassified to the financial result.

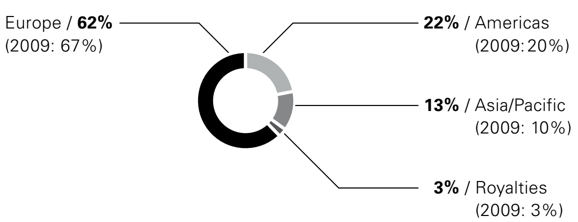
An overview of all changes in presentation is given on page 181 et seq.

SALES PERFORMANCE

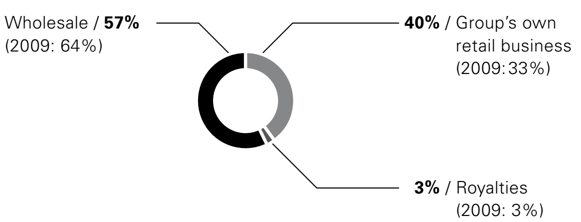
19/1 — SALES PERFORMANCE – 5-YEAR-COMPARISON (in EUR million)



19/2 — SALES BY REGION



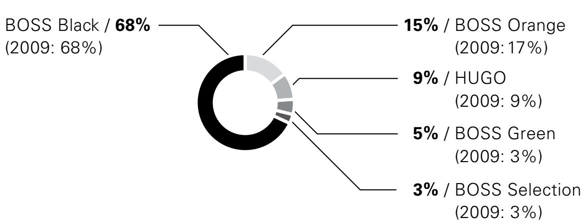
19/3 — SALES BY DISTRIBUTION CHANNEL



19/4 — SALES BY REGION (in EUR million)

	2010	**2009**	**Change in %**
Europe	1,073.2	1,041.3	3
Americas	380.7	312.2	22
Asia/Pacific	230.4	164.7	40
Royalties	45.1	43.7	3
Total	**1,729.4**	**1,561.9**	**11**

19/5 — SALES BY BRAND



19/6 — SALES PERFORMANCE BY QUARTER (in EUR million)

OVERALL STATEMENT ON BUSINESS DEVELOPMENT

2010 was a highly successful year for the HUGO BOSS Group. The improved strategic orientation to ensure profitable growth led last year to the best result for sales and net income in the Group's history to date. This development was supported by the recovery of the global economy and the accompanying increase in demand for premium and luxury products. However, the HUGO BOSS Group grew more strongly than the overall economy and the sector.

Sales development

HUGO BOSS' **GROUP SALES** amounted to EUR 1,729 million in fiscal year 2010, which meant that sales in the Group currency were up 11% on the previous year's level (2009: EUR 1,562 million). The effects of currency fluctuations in 2010 had a positive impact on sales performance. The development of the U.S. and Chinese currency in particular had a positive effect on sales in the reporting currency. In local currencies, sales increased by 7% compared with the previous year.

The recovery of the global economy following the 2009 recession and the positive development of the market for luxury and premium products are also reflected in the sales development of the HUGO BOSS Group during the year. The decline in sales in the first quarter of 2010 was still strongly influenced by extremely cautious order patterns on the part of wholesale partners in the second half of fiscal year 2009. At EUR 444 million, sales in the first quarter were still down 8% year-on-year (Q1 2009: EUR 484 million). However, the significant recovery in demand over time led to a year-on-year sales increase of 7% to EUR 325 million in the second quarter already (Q2 2009: EUR 304 million). The high growth rates in replenishment and especially in the Group's own retail business also contributed to this. In the third quarter, sales were then increased in all regions, in all sales channels and for all brands. The establishment of the joint venture in Asia also represented an important step in leveraging the future growth potential on the Chinese market. In the third quarter Group sales were up 19% year-on-year at EUR 538 million (Q3 2009: EUR 450 million). Sales were increased further in the fourth quarter, not least as a result of the particularly strong development of the Group's own retail business. At EUR 422 million, the fourth quarter sales exceeded those of the same quarter of the previous year by 30% (Q4 2009: EUR 324 million).

An overview of the sales performance by quarter is given in figure 19/6 on page 96.

Sales by region

Sales in **EUROPE** including the Middle East/Africa increased by 2% in local currencies in fiscal year 2010. In the reporting currency, they were up 3% year-on-year at EUR 1,073 million (2009: EUR 1,041 million).

Detailed explanation regarding sales by region can be found in "Profit Development of the Business Segments" on page 107 et seq.

The **AMERICAS** posted a sales increase of 14% in local currencies in the past fiscal year. In the reporting currency, sales increased by 22% year-on-year in this region to reach EUR 381 million (2009: EUR 312 million).

HUGO BOSS Group sales in **ASIA/PACIFIC** were up 28% year-on-year in local currencies. In fiscal year 2010, sales in the reporting currency were up 40% year-on-year at EUR 230 million (2009: EUR 165 million) due to positive currency effects. The joint venture agreement for the Chinese market contributed to this with additional sales of approximately EUR 26 million.

Overall, regions with a high proportion of the Group's own retail business saw a stronger sales development in fiscal year 2010 than regions which are highly dependent on wholesale business.

Sales by distribution channel

in EUR million	2010	2009	2008	2007	2006
Wholesale	993.2	1,007.9	1,183.3	1,167.0	1,094.3
Group's own retail business	691.1	510.3	455.8	416.1	358.2
Royalties	45.1	43.7	47.0	48.9	43.0
Total	**1,729.4**	**1,561.9**	**1,686.1**	**1,632.0**	**1,495.5**

In the **WHOLESALE CHANNEL** there was a decline in sales of 1% (decline of 5% after adjustment for currency effects) to EUR 993 million in fiscal year 2010 (2009: EUR 1,008 million). Due to the seasonal nature of business, the recovery of the global economy became noticeable in the sales development of this distribution channel only later. The order written in late summer of 2009 for the spring/summer collection was influenced by extremely cautious order patterns on the part of wholesale customers and thus had a negative impact on the sales development in the first two quarters of fiscal year 2010. The Southern and Eastern European markets, which were harder hit by the effects of the real estate and financial crisis, were particularly impacted by this. In contrast, a significant recovery in wholesale business was noticeable in the second half of fiscal year 2010. The acquisition of stores previously operated by franchisees in China and Australia also caused a shift in sales from the wholesale to the retail channel.
In addition, the replenishment business, with which HUGO BOSS can react to short-term surges in demand from trading partners, increased further in the past fiscal year, evidencing a double-digit growth rate in comparison to the previous year. The share of the wholesale channel in Group sales decreased from 65% in the previous year to 57%.

WWW — www.hugoboss.com / Store Locator

The development of **SALES IN THE GROUP'S OWN RETAIL BUSINESS (RETAIL)** remained positive, benefiting to a great extent from the consistently sustained professionalization of the existing network. With continued expansion in the current year, sales increased by 35% to EUR 691 million in fiscal year 2010 (2009: EUR 510 million) and thus made a positive contribution to the Group's overall financial performance. This is equivalent to a 30% increase in sales after adjustment for currency effects. Sales via directly operated stores including outlets and online stores therefore amounted to 40% of total sales (2009: 33%).

Sales by retail format

SALES FROM DIRECTLY OPERATED RETAIL STORES (DOS) were increased by 48% (by 41% after adjustment for currency effects) to EUR 448 million (2009: EUR 303 million) in the past fiscal year. On a like-for-like basis, sales increased by 14% (by 9% after adjustment for currency effects) in the reporting currency as against the previous year. At 23% and 14% respectively (15% and 8% after adjustment for currency effects), the third and fourth quarters in particular contributed to this positive development.

The **OUTLET BUSINESS** is a key distribution channel which supplements the Group's own retail business. At the end of each season, it is possible to stock own stores with new seasonal goods and remaining quantities can be sold via outlets in a controlled fashion. Nonetheless, the requirements regarding store design and the presentation of the goods are also high for this channel. Hence, in addition to directly operated retail stores, outlet stores also contributed to the positive development of sales in this distribution channel in fiscal year 2010, with a sales increase of 13% (9% after adjustment for currency effects) to EUR 224 million (2009: EUR 199 million).

The international **ONLINE RETAIL ACTIVITIES** are becoming increasingly important. After over a year of operating activities in the key European markets, the opening of the U.S. online store in the second quarter of 2010 marked the beginning of the development of this key online market. Since the fourth quarter, there has also been an online store available in Austria. Sales generated from the existing online stores in Germany, the Netherlands, France, the UK, Austria and the U.S. increased to EUR 20 million in fiscal year 2010 (2009: EUR 8 million).

Number of Group's own retail stores

In fiscal year 2010, the total number of **GROUP'S OWN RETAIL STORES** increased by 99 in net terms as compared to the previous year, amounting to 537 (December 31, 2009: 438).
The Group's global presence was expanded by 116 locations since the beginning of the year due to new openings, franchise acquisitions and the joint venture agreement in China. This is offset by the closure of 17 retail stores and temporary outlets. Another 26 units were added to existing **SHOP-IN-SHOP UNITS** in fiscal year 2010, bringing the total to 261 units. In the same period, the number of **DIRECTLY OPERATED FREESTANDING STORES INCLUDING OUTLETS** increased by 73 to reach a total of 276. This included an initial 34 directly operated freestanding stores in China and Macao which HUGO BOSS added to its own retail network as part of the joint venture agreement with the Rainbow Group in July 2010. In the fourth quarter, another four stores were opened in major Chinese cities as part of the joint venture.

The development of the number of the Group's own retail stores is provided in figure 20 on page 99.

In addition to the expansion of the Group's own retail network due to the joint venture, another 27 attractive locations were gained in the growth region **ASIA/PACIFIC** through new openings and acquisitions. Besides 11 new stores in Shanghai and other regions, five new own retail stores were opened in Chengdu, one of the most important commercial centers in Western China, in 2010. These store openings emphasize the significance of China for the expansion of the Group's own retail business and the international presence of the HUGO BOSS brand. The number of directly operated points of sale on the Australian continent was also increased to the current level of 25 as a result of the takeover of locations of a franchisee and due to new openings. In total, the Group's own retail network in the Asia/Pacific region was thus expanded to 171 locations in fiscal year 2010 (2009: 111).

The Group's own retail network in **EUROPE** was also expanded with 34 new stores and five outlets. Particularly due to the acquisition of six locations in Portugal, new openings in France and the Benelux countries and the opening of the first two locations in Ireland, the own retail network was expanded to reach 253 European points of sales (2009: 219). With the acquisition of two locations in Turkey and – for the first time – five locations in Poland, the expansion of the Group's own retail business was stepped up on the Eastern European market, too.

20 — NUMBER OF GROUP'S OWN RETAIL STORES

The network of own retail stores in the **AMERICAS** region comprised 113 locations as of the end of 2010 (2009: 108). In addition to targeted new openings in Canada and the U.S., expansion was also stepped up in Central and South America through new openings in Brazil and Mexico.

Further information on the global market presence can be found in figure 09 on page 68.

Taking into account the roughly 1,000 franchise stores and shops, the HUGO BOSS Group currently has a total of more than 1,500 monobrand stores and shops in over 80 countries.

Royalty sales

The royalty business developed positively in fiscal year 2010. Royalty sales include license income from third parties as well as intercompany sales. Products manufactured by partners include **FRAGRANCES, EYEWEAR, WATCHES, CHILDREN'S FASHION, AND MOTORCYCLE HELMETS**. Intercompany sales show the sales by HUGO BOSS Trade Mark Management GmbH & Co. KG as the owner of the Group's trademarks with Group companies. External sales with outside licensees were up slightly on the previous year, increasing by 3% to EUR 45 million (2009: EUR 44 million). In the previous year, income from minimum license fee agreements mitigated the effects of a decline in licensee sales on the Group.

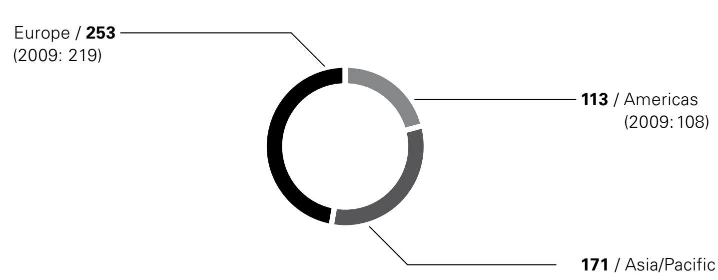
Total **BRAND SALES** of HUGO BOSS products worldwide in fiscal year 2010 amounted to EUR 2,189 million (2009: EUR 1,981 million). This figure is based upon HUGO BOSS Group sales minus royalty income and plus sales by HUGO BOSS license partners.

Sales by brand and line

Sales by brand are provided in figure 19/5 on page 96.

In fiscal year 2010, HUGO BOSS recorded increases in the sales of both the **CORE BRAND BOSS** and of the **TRENDY BRAND HUGO** of 11% and 6% respectively, with a positive sales development in all four of the BOSS fashion lines over the reporting year. Sales in the **BOSS BLACK** line were up 10% from the previous year. Sales in the **BOSS SELECTION** and **BOSS ORANGE** lines also increased by 8% and 1% respectively year-on-year. This illustrates the success of the realignment of these two lines. The premium sportswear line **BOSS GREEN**, which was expanded with a womenswear collection in 2010, saw a high growth rate of 91% in the past fiscal year.

21 — NUMBER OF GROUP'S OWN RETAIL STORES BY REGION



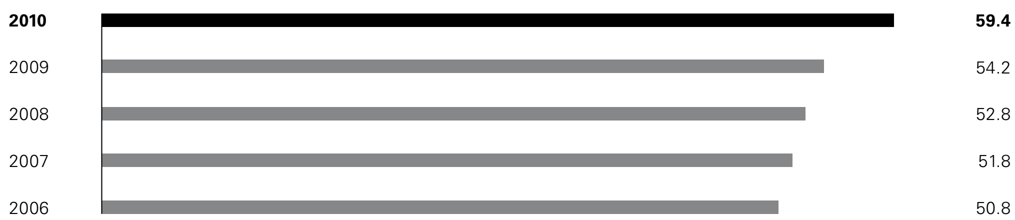
DEVELOPMENT OF ORDER SITUATION

HUGO BOSS' business model has changed significantly in recent years. Instead of the pre-order business that dominated in the past, business is increasingly driven by the share of sales achieved either through the Group's own retail business or from replenishment. In addition, a gradual shift in retail partners' purchasing budgets from pre-order to distribution-driven delivery is becoming apparent. Ongoing integration processes along the entire value chain, the gradual reduction in complexity and the continuous market-oriented development of the brand and collection portfolio are necessary in order to meet customers' changing requirements.

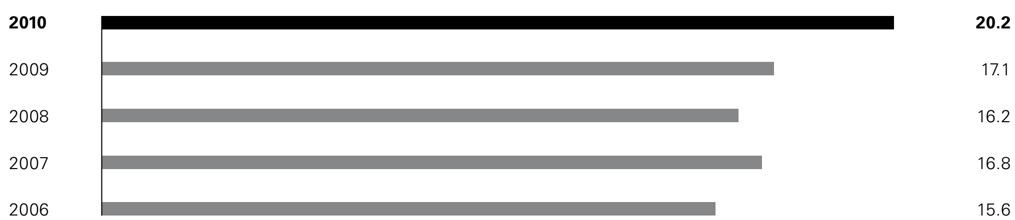
Today, HUGO BOSS provides four up-to-date fashion collections a year for its customers all over the world, and is increasing the number of monthly theme-oriented deliveries. The **SHARE OF CLASSIC PRE-ORDER BUSINESS** – the sale of goods ordered in advance by retail partners – decreased to 46% of sales in the last fiscal year (2009: 54%). In contrast, classic HUGO BOSS products in particular can now be replenished flexibly. In order to continue ensuring planable production conditions in the light of the changes in distribution, HUGO BOSS does not purely depend on order figures, but also includes information from the distribution companies and the Group's own retail stores in its target planning.

EARNINGS PERFORMANCE

22/1 — GROSS PROFIT MARGIN – 5-YEAR-COMPARISON (in %)



22/2 — ADJUSTED EBITDA MARGIN – 5-YEAR-COMPARISON (in %)



22/3 — EBITDA BEFORE SPECIAL ITEMS BY QUARTER (in EUR million)

EARNINGS DEVELOPMENT

Income statement

in EUR million	2010	in % of sales	2009	in % of sales	Change in %
Net Sales	**1,729.4**	**100.0**	**1,561.9**	**100.0**	**11**
Cost of Sales[1]	(661.8)	(38.3)	(680.9)	(43.6)	3
Direct selling expenses	(40.5)	(2.3)	(33.9)	(2.2)	(19)
Gross profit	**1,027.2**	**59.4**	**847.1**	**54.2**	**21**
Selling and distribution expenses	(574.4)	(33.2)	(487.9)	(31.2)	(18)
Administration costs and other operating income/expenses	(188.8)	(10.9)	(203.8)	(13.0)	7
Operating income (EBIT)	**263.9**	**15.3**	**155.4**	**10.0**	**70**
Net interest income/expense	(17.3)	(1.0)	(22.4)	(1.4)	23
Other financial items[1]	2.5	0.1	3.6	0.2	31
Net financial result	**(14.8)**	**(0.9)**	**(18.8)**	**(1.2)**	**21**
Earnings before taxes	**249.2**	**14.4**	**136.6**	**8.7**	**82**
Income taxes	(59.9)	(3.5)	(32.6)	(2.1)	(84)
Net income	**189.2**	**10.9**	**104.0**	**6.7**	**82**
Attributable to:					
Equity holders of the parent company	185.9	10.7	104.0	6.7	79
Minority interests	3.3	0.2	0.0	0.0	>100
Net income	**189.2**	**10.9**	**104.0**	**6.7**	**82**
per share (EUR)[2]					
Common share	2.69		1.50		79
Preferred share	2.70		1.51		79

1 The previous year's figure has been adjusted. Please also refer to the enclosed notes to the consolidated financial statements.
2 Basic and diluted earnings per share.

Notes to the income statement

GROSS PROFIT increased by 21% to EUR 1,027 million in fiscal year 2010 (2009: EUR 847 million). Thus, the **GROSS PROFIT MARGIN** was increased by 520 basis points to 59.4% (previous year: 54.2%). This development is due in particular to the rising share of sales generated in the Group's own retail business. In addition, a consistent pricing strategy, particularly in the Group's own retail business, as well as the continued optimization of global production and sourcing activities also contributed to the margin improvement.

At EUR 574 million, **SELLING AND DISTRIBUTION EXPENSES** in fiscal year 2010 were 18% higher than the previous year's figure of EUR 488 million. As a result of the global expansion of the Group's own retail business, retail expenses increased by EUR 75 million in the past fiscal year. These costs include the additional expenses for 99 net new locations which were opened in fiscal year 2010 in line with the global expansion of this distribution channel. After decreasing in the previous year, in 2010 marketing expenses rose back to the level of preceding years, increasing by EUR 17 million year-on-year. The intensification of promotional activities in all areas served to support major brand initiatives such as the repositioning of the BOSS Orange line. The consolidation and optimization of global warehousing capacity contributed to the fact that logistics expenses in fiscal year 2010 were at the same level as the previous year despite an increase in sales. Allowances for doubtful accounts and debt defaults were roughly halved as compared to the previous year due to the continued systematic receivables management.

At EUR 189 million in fiscal year 2010, **ADMINISTRATIVE COSTS AND THE BALANCE OF OTHER OPERATING INCOME AND EXPENSES** were down roughly 7% on the previous year's level (2009: EUR 204 million). Administrative costs increased by EUR 15 million year-on-year, predominantly as a result of expenses in connection with pensions and stock appreciation rights. At EUR 47 million in fiscal year 2010, the research and development costs incurred in creating the collections were roughly EUR 3 million higher than the previous year's level (2009: EUR 44 million). However, a significant decline in one-off expenses of EUR 34 million more than compensated for the increase in administrative costs and research and development costs. Special items continued to be incurred in fiscal year 2010 in the amount of EUR 14 million (2009: EUR 48 million) in connection with the structural realignment and the changes in management in the past years. In contrast, closures of own retail stores and showrooms played only a minor role in the past fiscal year.

The internal performance indicator **EBITDA BEFORE SPECIAL ITEMS** increased by 31% year-on-year to EUR 350 million (2009: EUR 267 million). The adjusted EBITDA margin improved by 3.1 percentage points year-on-year to 20.2% (2009: 17.1%).

At EUR 72 million, **DEPRECIATION** increased by roughly 4% as compared to the previous year's level (2009: EUR 69 million).

OPERATING INCOME (EBIT) increased by 70% to EUR 264 million in fiscal year 2010 (2009: EUR 155 million). Higher selling and distribution expenses were fully compensated by the positive sales development in the retail channel as well as the improvement in the gross profit margin.

The **NET FINANCIAL RESULT** amounted to EUR –15 million at the end of fiscal year 2010 (2009: EUR –19 million). Net interest expense (interest income less interest expense) decreased by EUR 5 million, amounting to EUR –17 million at the end of the reporting period (2009: EUR –22 million). A lower average interest rate had a positive impact on the unsecured portion of the floating-rate credit lines. In addition, interest income of EUR 2 million (2009: EUR 0 million) was generated from investing cash funds in short-term time deposits. Currency gains from operating activities amounted to EUR 7 million (2009: EUR 3 million). In addition, there was a neutral result from hedging instruments for the "Stock Appreciation Rights Program" in 2010 (2009: income of EUR 3 million).

EARNINGS BEFORE TAXES thus increased by 82% to EUR 249 million (2009: EUR 137 million). At 24%, the tax rate was at the previous year's level (2009: 24%). Changes in the regional earnings mix resulting from differences in regional earnings growth had a neutral effect on the Group's tax rate in 2010.

At EUR 189 million, **NET INCOME** increased by roughly 82% in fiscal year 2010 as compared to the previous year's level (2009: EUR 104 million). Net income attributable to equity holders amounted to EUR 186 million, approximately 79% higher than the previous year's figure (2009: EUR 104 million). Minority interests amounted to EUR 3 million in the period (2009: EUR 0 million) and primarily related to the 40% share of the Rainbow Group in the joint venture companies in China. **EARNINGS PER SHARE** increased by 79% year-on-year to EUR 2.69 (2009: EUR 1.50) for the **COMMON SHARES**, and by 79% year-on-year to EUR 2.70 for the **PREFERRED SHARES** (2009: EUR 1.51).

Dividend payout and appropriation of profits

HUGO BOSS AG closed fiscal year 2010 with net income of EUR 49 million (2009: EUR 71 million). The distributable profit after the transfer from net earnings amounted to EUR 143 million (2009: EUR 68 million). In view of a **PROFIT-ORIENTED DISTRIBUTION POLICY**, the Managing and Supervisory Board will recommend to the Annual Shareholders' Meeting that a **DIVIDEND OF EUR 2.02 BE PAID PER COMMON SHARE AND EUR 2.03 PER PREFERRED SHARE** for fiscal year 2010. This corresponds to an amount of EUR 140 million (2009: EUR 67 million). A recommendation will also be made to the Annual Shareholders' Meeting for the dividend amount attributable to own shares of EUR 3 million to be carried forward (2009: EUR 1 million).

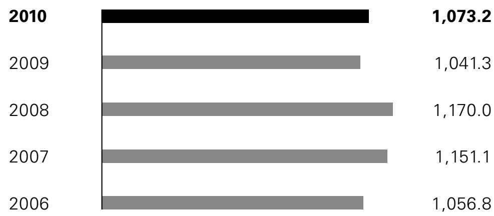
The development of the dividend per common share and the dividend per preferred share can be found in figures 05/1 and 05/2 on page 59.

23/1 — EARNINGS PER PREFERRED SHARE (in EUR)

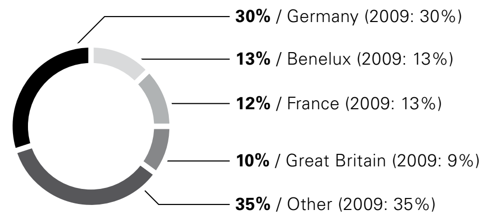
23/2 — EARNINGS PER COMMON SHARE (in EUR)

SALES BY REGION

24/1 — EUROPE (in EUR million)

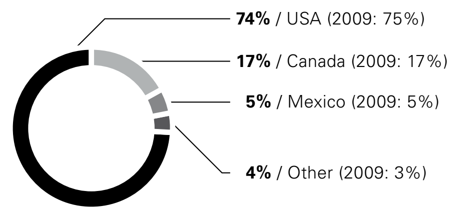


24/2 — EUROPE BY MARKET



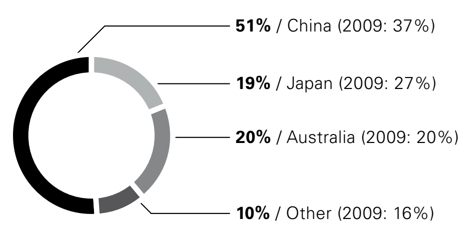
24/3 — AMERICAS (in EUR million)

24/4 — AMERICAS BY MARKET



24/5 — ASIA/PACIFIC (in EUR million)

24/6 — ASIA/PACIFIC BY MARKET



PROFIT DEVELOPMENT OF THE BUSINESS SEGMENTS

HUGO BOSS Group sales increased in all regions in 2010. Whilst sales in Europe were up 2% after adjustment for currency effects, the Americas and Asia saw growth of 14% and 28% respectively in local currencies. At the same time, profitability was improved in all regions.

Earnings by region correspond to the segment profit and thus the EBITDA before special items from the regional business units including the profit share from services received from or rendered with units from other operating segments. Thus the segment profit is to be considered in association with total segment sales.

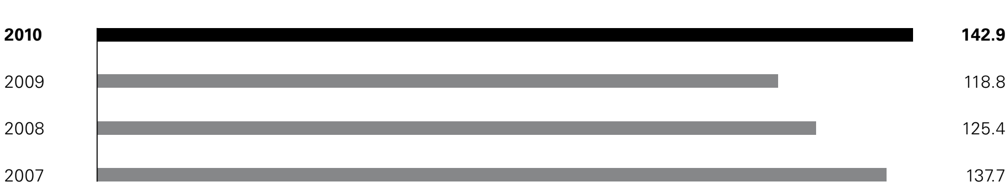
The global distribution functions of the HUGO BOSS Group are divided into the three regions of Europe, Americas, Asia/Pacific as well as the royalties segment. The Group-wide central structures are bundled under Corporate Center. Companies are allocated to the regions according to their domiciles.

EUROPE

Sales in **EUROPE** including the Middle East/Africa increased by 2% in local currencies in fiscal year 2010. In the reporting currency, they were up 3% year-on-year at EUR 1,073 million (2009: EUR 1,041 million).
With regard to the major **EUROPEAN MARKETS**, there are significant regional differences in the sales development. At EUR 324 million, sales in **GERMANY** were up 5% on the previous year's level (2009: EUR 309 million). In the **BENELUX COUNTRIES** sales increased by 1% year-on-year to EUR 136 million (2009: EUR 135 million), whereas sales in **FRANCE** were down 2% year-on-year at EUR 131 million (2009: EUR 134 million). In **GREAT BRITAIN**, sales increased by 13% year-on-year after adjustment for currency effects. Amounting to EUR 112 million, sales in the reporting currency were roughly 17% higher than in the previous year (2009: EUR 96 million). In **SPAIN**, the closing of unprofitable retail stores in the previous year as well as the continued difficult market environment led to a decline in sales in the reporting period. Business in **ITALY** also remained slightly lower than in the previous year. In contrast, there were sales increases in Scandinavia and Eastern Europe. In **SCANDINAVIA** the general recovery of the market and targeted new openings led to a positive sales development. The Group's expansion in the Eastern European market was stepped up further with the acquisition of initially five retail stores in **POLAND**.

At EUR 143 million, **SEGMENT PROFIT IN THE EUROPEAN REGION** was up EUR 24 million from the previous year's figure (2009: EUR 119 million). The increasing share of the Group's own retail business and

25/1 — EARNINGS EUROPE (in EUR million)



2006 figures are not available. Change towards segment reporting by region took place in 2007.

strict cost discipline in other operating expenses made a significant contribution to the increase in profit. Allowances for doubtful accounts in the Eastern European and French markets were much lower in fiscal year 2010 than in 2009 due to the easing of the economic situation. The adjusted EBITDA margin improved by 1.9 percentage points year-on-year to 13.3% (2009: 11.4%).

AMERICAS

The **AMERICAS** posted a sales increase of 14% in local currencies in the past fiscal year. In the reporting currency, sales increased by 22% year-on-year in this region to reach EUR 381 million (2009: EUR 312 million).

In particular, an increase in sales of 16% in the local currency was achieved in the **U.S.** At EUR 283 million in the reporting currency, sales here increased by 21% and significantly exceeded the previous year's figure (2009: EUR 233 million). Double-digit growth rates were achieved both in the wholesale channel and in sales from the Group's own retail stores. In addition to a sales increase at existing own retail locations, additional sales were also generated through targeted new openings of own retail stores and the opening of the U.S. online store in the first half of the year.

After adjustment for currency effects, sales in **CANADA** were up 5% on the previous year's level as a result of sales increases in the Group's own retail business. The development of the Canadian dollar had a positive effect on sales in the reporting currency, which were up 21% at EUR 63 million at the end of the reporting period (2009: EUR 52 million). In **CENTRAL AND SOUTH AMERICA**, an increase in sales of 13% in the local currencies was achieved. In the reporting currency, this corresponds to a rise of 28% to EUR 35 million (2009: EUR 27 million). This increase is chiefly due to the positive development of the existing own retail locations as well as targeted new openings in the Mexican and Brazilian markets.

SEGMENT PROFIT of EUR 47 million **IN THE AMERICAS** was significantly higher than the previous year's level of EUR 15 million. In addition to an increase in sales, the main factor leading to the improvement in profit was the improvement in the gross profit margin in all markets due to the increasing share of the Group's own retail business. A consistent implementation of the pricing strategy in wholesale and own retail business in the U.S. market in particular caused an additional improvement in profit. The adjusted EBITDA margin in this region improved by 7.7 percentage points to 12.4% in total in fiscal year 2010 (2009: 4.7%).

25/2 — EARNINGS AMERICAS (in EUR million)

2006 figures are not available. Change towards segment reporting by region took place in 2007.

ASIA/PACIFIC

HUGO BOSS Group sales in **ASIA/PACIFIC** were up 28% year-on-year in local currencies. In fiscal year 2010, sales in the reporting currency were up 40% year-on-year at EUR 230 million (2009: EUR 165 million). The joint venture agreement for the Chinese market contributed to this with incremental sales of approximately EUR 26 million. The share of sales generated from own retail stores climbed from 46% in fiscal year 2009 to 68% in fiscal year 2010 in the Asia/Pacific region. As a result of the joint venture agreement and targeted new openings of retail stores, sales in **CHINA** saw growth of 84% after adjustment for currency effects. In the reporting currency, sales of EUR 117 million were also considerably higher than the previous year's level of EUR 61 million. Sales in **AUSTRALIA** were increased in the past fiscal year, particularly as a result of the takeover of locations of a franchisee, whereas business in the **JAPANESE MARKET** remained difficult.

With sales increasing, **SEGMENT PROFIT IN ASIA/PACIFIC** also increased significantly from EUR 15 million in the previous year to EUR 40 million. The ongoing expansion of the Group's own retail business in this region led, with an increase in sales at the same time, to a EUR 25 million increase in segment profit as compared to the previous year. The significant increase in the share of sales generated from the Group's own retail stores contributed to an improvement in the gross profit margin. The retail stores added to the Group as part of the joint venture agreed in July 2010 had a major influence on this development. The adjusted EBITDA margin in this region thus improved by 8.4 percentage points year-on-year, amounting to 17.3% in fiscal year 2010 (2009: 8.9%).

25/3 — EARNINGS ASIA/PACIFIC (in EUR million)

2006 figures are not available. Change towards segment reporting by region took place in 2007.

ROYALTIES

The **ROYALTY BUSINESS** also posted a sales increase in fiscal year 2010. Royalty sales include license income from third parties as well as intercompany sales. Products manufactured by partners include fragrances, eyewear, watches, children's fashion, and motorcycle helmets. At EUR 45 million, external sales with outside licensees were up by 3% as compared to the previous year's level (2009: EUR 44 million). Minimum license fees compensated for the decrease in sales in the previous year. In fiscal year 2010, double-digit growth was achieved particularly in sales with licensees for eyewear, watches and children's fashion. Royalty sales of the biggest licensed product group, fragrances, also increased as against the previous year.

Profit in the **ROYALTIES SEGMENT** amounted to EUR 79 million, up slightly on the previous year's level of EUR 75 million. The royalty business incurs expenses for license management and for marketing the products as part of license sales with affiliated companies and external partners.

CORPORATE CENTER

The result of the Group-wide bundling of central purchasing, production, research and development activities as well as other central functions is recorded in the **CORPORATE CENTER SEGMENT**. Segment profit climbed to EUR 55 million in fiscal year 2010 (2009: EUR 34 million). The optimization of the global purchasing and production processes as well as central structures contributed to the improvement in this segment's earnings and margin. The adjusted EBITDA margin for this segment improved by 2.0 percentage points to 5.6% in the reporting period (2009: 3.6%).

NET ASSETS AND FINANCIAL POSITION

HUGO BOSS strengthened its equity base in fiscal year 2010, thereby further improving its balance sheet structure. In particular, the use of capital was made more efficient. This is reflected primarily in a decrease in net working capital.

BALANCE SHEET STRUCTURE AND KEY BALANCE SHEET RATIOS

At the end of fiscal year 2010, **TOTAL ASSETS** were up 27% at EUR 1,355 million (December 31, 2009: EUR 1,065 million). This increase is mainly due to the rise in cash and cash equivalents and the global expansion of the Group's own retail business.

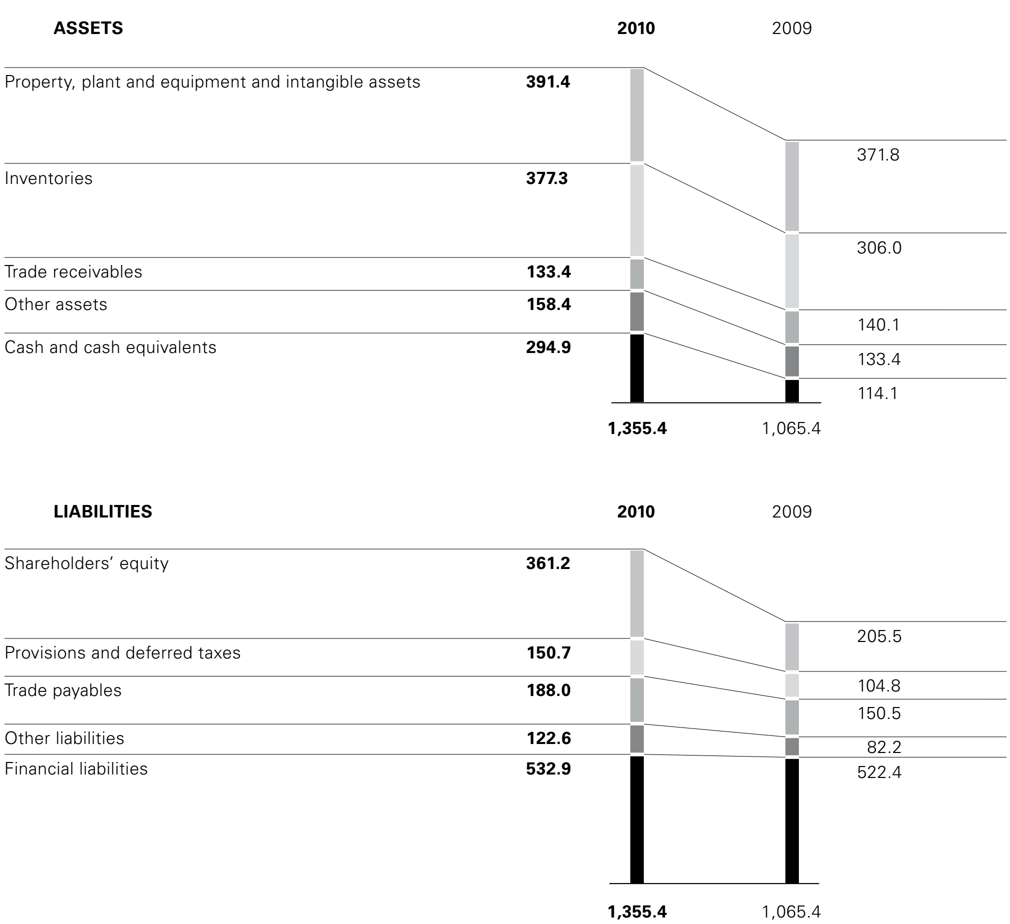
Compared to previous year, the **EQUITY RATIO** increased to 27% (December 31, 2009: 19%).

Balance sheet structure

As a result of the increase in cash and cash equivalents and in inventories, the **SHARE OF CURRENT ASSETS** climbed to 66% as compared to 59% on December 31, 2009. Accordingly, the **SHARE OF NON-CURRENT ASSETS** decreased from 41% in the previous year to 34% as of December 31, 2010.

Please also refer to the consolidated balance sheet on page 152 et seq.

26 — BALANCE SHEET STRUCTURE (in EUR million)



The **STRUCTURE OF THE LIABILITIES SIDE** of the balance sheet remains significantly influenced by the utilized fixed credit line of the syndicated loan of EUR 450 million. However, the share of financial liabilities decreased from 49% in the previous year to 39% as of December 31, 2010. This is mainly the result of the significant increase in shareholders' equity due to the positive profit development.

NET ASSETS

On the assets side of the balance sheet, **FIXED ASSETS** were up slightly at EUR 391 million at the end of fiscal year (December 31, 2009: EUR 372 million). This was chiefly due to the asset additions resulting from the first-time consolidation of the joint venture in China. As part of the purchase price allocation, hidden reserves in intangible assets were recognized in the amount of EUR 16 million and goodwill in the amount of EUR 10 million. Investments in the continued expansion of the Group's own retail business and the further development of the operational IT systems were offset by disposals and depreciation/amortization.

At the end of fiscal year 2010, **INVENTORIES** were up 23% at EUR 377 million (December 31, 2009: EUR 306 million). Currency effects, particularly in connection with the U.S. dollar and the Swiss franc, had a negative influence on the development of inventories. The finished goods added by the joint venture companies also increased this item. Adjusted for currency effects and the first-time consolidation of the joint venture, inventories were up 10% year-on-year. This increase reflects the continued expansion of the Group's own retail business. In addition, the increased volume in the purchase and production of goods due to the anticipated positive business development led to a slight increase in raw materials inventories.

TRADE RECEIVABLES were reduced by 5% year-on-year to EUR 133 million (December 31, 2009: EUR 140 million). After adjustment for currency effects, this corresponds to a 10% decrease which is due particularly to the receivables management implemented throughout the Group. As a result of the systematic monitoring of outstanding accounts and improved collection of receivables, the average days sales outstanding was reduced considerably as against the previous year's level.

OTHER ASSETS increased by 19% year-on-year to EUR 158 million (December 31, 2009: EUR 133 million) as a result of the increase in the positive fair values of short-term and medium-term hedges and of bonus receivables from supply relationships.

CASH AND CASH EQUIVALENTS amounted to EUR 295 million as of the reporting date (December 31, 2009: EUR 114 million). This increase was chiefly due to the development of cash flow from operations, which had a positive impact on the Group's liquidity situation.

On the liabilities side of the balance sheet, **PROVISIONS AND DEFERRED TAXES** increased to EUR 151 million (December 31, 2009: EUR 105 million). This item includes provisions for pensions and other personnel expenses in the amount of EUR 73 million (December 31, 2009: EUR 50 million). It also includes other provisions totaling EUR 53 million (December 31, 2009: EUR 38 million) and deferred tax liabilities of EUR 25 million (December 31, 2009: EUR 16 million).

TRADE PAYABLES increased by 25% to EUR 188 million (December 31, 2009: EUR 151 million), chiefly due to higher sourcing volumes. After adjustment for currency effects, this is equivalent to an increase of 20%. Payment terms implemented as part of the "preferred supplier" policy increased the days payable outstanding and thus trade payables.

Total **CURRENT AND NON-CURRENT FINANCIAL LIABILITIES** increased slightly as compared to the previous year, totaling EUR 533 million as of the reporting date (December 31, 2009: EUR 522 million). This includes negative fair values of interest and currency hedges totaling EUR 26 million (December 31, 2009: EUR 29 million) and the deferred outstanding purchase price payments for the acquisition of the joint venture companies in China.

OTHER LIABILITIES increased by 50% year-on-year to EUR 123 million (December 31, 2009: EUR 82 million). In addition to current tax payables, this item also includes the deferrals for the operating lease agreements of the Group's own retail stores.

NET WORKING CAPITAL is the HUGO BOSS Group's key performance indicator for measuring efficient use of capital. The main components involved in calculating this figure are the operating figures of inventories, trade receivables and trade payables.

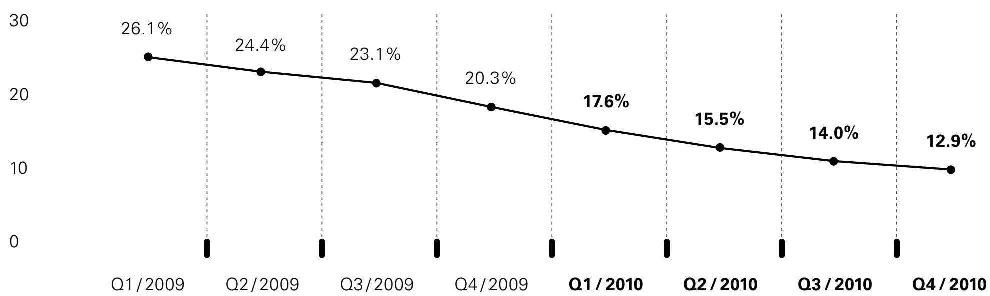
In comparison to the previous year, net working capital was down 8% at EUR 205 million (December 31, 2009: EUR 223 million). The changes in trade receivables and trade payables partly compensated for the rise in inventories. Changes in other items of net working capital also had a positive influence on the level of this key figure as of the reporting date.

The 12-month moving average of the ratio of net working capital in percentage of sales was also reduced significantly as against the previous year, reaching a historical low of 12.9% as of the reporting date (2009: 20.3%). This development is chiefly due to the measures implemented to optimize net working capital.

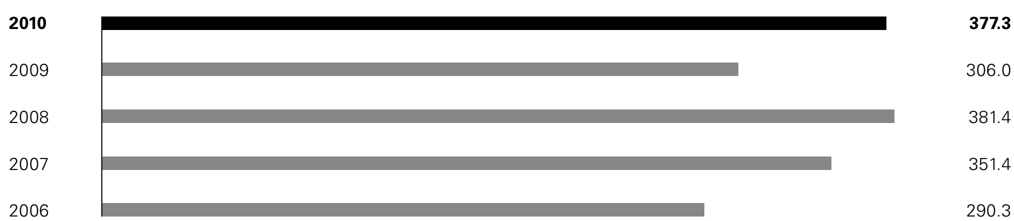
Please also refer to figure 27/1 on net working capital on page 114.

NET WORKING CAPITAL

27/1 — NET WORKING CAPITAL (in % of sales)

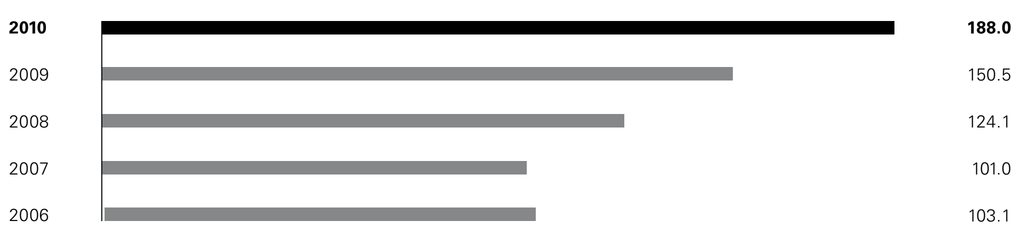


27/2 — INVENTORIES – 5-YEAR-COMPARISON (in EUR million)



27/3 — TRADE RECEIVABLES – 5-YEAR-COMPARISON (in EUR million)

27/4 — TRADE PAYABLES – 5-YEAR-COMPARISON (in EUR million)



FINANCIAL POSITION

Financial management and financing principles

The most important objective of **FINANCIAL MANAGEMENT** at HUGO BOSS is to provide at all times sufficient liquidity reserves for industry-specific seasonal fluctuations and for the Group's continued growth.

Detailed information regarding liquidity risk can be found in the risk report under "financing and liquidity risks" on page 129.

The most important sources of liquidity for the Group are the operating business activities of the individual Group companies and the resulting cash inflows. A **PERMANENT POSITIVE FREE CASH FLOW** ensures the Group's financial independence and its solvency at all times.

With the aid of **CASH MANAGEMENT SYSTEMS**, liquidity surpluses from individual Group companies are utilized to cover the financial requirements of other Group companies (cash pooling). This internal financing mechanism serves to ensure an optimal allocation of liquidity and reduce the further debt financing volume of the HUGO BOSS Group. The advantages of this procedure are the reduction of chargeable bank transactions as well as lower external financing requirements, having a positive impact on the net interest result.

Treasury responsibilities and functions

The Group's liquidity management and the monitoring of financial risks are bundled centrally in the Treasury Department of HUGO BOSS AG. This means that **GLOBAL FINANCIAL MANAGEMENT** is carried out centrally in accordance with Group-wide principles and guidelines for all Group companies. At subsidiary level, the Finance Managers are responsible for compliance with Treasury principles.

On a daily basis, a **CENTRALIZED FINANCIAL REPORTING SYSTEM** supplies all the HUGO BOSS Group companies with information on their financial status and the expected cash flows for the following 12 months. Liquidity management is based on a three-year financial plan as well as an additional monthly liquidity plan for the Group as a whole.

The **EXTERNAL FINANCING VOLUME** of the HUGO BOSS Group is primarily borrowed by HUGO BOSS International B.V. This covers the financing requirements of the Group companies to the greatest extent possible. Other HUGO BOSS companies enter into external financing agreements only in individual cases, such as when the use of local credit and capital markets is economically advantageous. If the Group companies directly enter into external credit transactions, either HUGO BOSS AG or HUGO BOSS International B.V. submit guarantees or letters of comfort depending on the request.

Financing

When **SELECTING FINANCING INSTRUMENTS**, market capacity, financing costs, investor diversification, flexibility, credit terms and maturities are taken into account.

Key financing instruments and future financial obligations are described in the notes to the consolidated financial statements under "Financial liabilities", "Other financial obligations" and "Additional disclosures on financial instruments" on page 201 et seq.

The Group's **LONG-TERM FINANCIAL FLEXIBILITY** was already guaranteed in fiscal year 2008 by means of a syndicated loan in the amount of EUR 750 million and a term of five years. This syndicated loan consists of a fixed credit line of EUR 450 million and a revolving credit line of EUR 300 million. As of the reporting date, only the fixed credit line of EUR 450 million had been used.

In its capacity as an "in-house bank", HUGO BOSS International B.V. provided these funds by means of matching-maturity intercompany loans to Group companies with high financing requirements. These loans with repayment on final maturity were generally extended in the local currency of the respective distribution company. To hedge against the resulting foreign currency risk at HUGO BOSS International B.V., forward exchange contracts with appropriate terms were entered into for the key currencies.

To further ensure liquidity, the Group has bilateral credit lines with a total volume of EUR 83 million as of the reporting date, of which EUR 46 million had been used as of December 31, 2010. In addition to the unutilized credit lines amounting to EUR 337 million, the Group had liquidity funds of EUR 295 million as of the reporting date, of which EUR 246 million was invested in fixed deposit accounts with a term of up to 6 months.

Financing conditions

For the financial liabilities please refer to note no. 25 in the notes to the consolidated financial statements on page 201 et seq.

The **SYNDICATED LOAN AGREEMENT** includes standard agreements (covenants) requiring the level of certain key figures to be maintained. In addition to a minimum shareholders' equity, these figures include an interest cover ratio, as well as a leverage ratio, meaning the ratio of net debt to operating income (EBITDA before special items) before expenses in connection with the "Stock Appreciation Rights Program".

A 5-year-comparison of total leverage is given by figure 28 on page 116.

As in the preceding quarters, HUGO BOSS significantly exceeded the required minimum thresholds as of December 31, 2010. As a result of the positive development of operating income and the significant improvement in net debt, **TOTAL LEVERAGE** in particular has improved considerably as compared to the previous year. As of the reporting date, this ratio was down from 1.4 in the previous year to 0.6.

Most of the financial liabilities of the HUGO BOSS Group have a floating interest rate, and the majority are subject to short-term interest fixing. As of December 31, 2010, about EUR 313 million of the floating-rate financial liabilities were hedged against an interest rate increase with payer swaps. Other fixed-income loans are not subject to interest rate risk.

At 1.7% in 2010, the weighted average interest rate for gross financial liabilities before interest hedging contracts remained almost at the previous year's level (2009: 1.6%).

Off-balance sheet financing instruments

For the operating leases please refer to the notes to the consolidated financial statements on page 207.

The financing is supplemented by off-balance sheet operating lease agreements on own retail stores and on logistics and administration buildings.

28 — TOTAL LEVERAGE[1]

1 Net financial position/EBITDA before special items and expenses for the "Stock Appreciation Rights Program".

29 — INTEREST COVER[1]

1 EBITDA before special items and expenses for the "Stock Appreciation Rights Program"/net interest income/expense.

Principles of capital management

The main objectives of the Group's capital management are supporting the Group's operating business activities, maximizing shareholder value and ensuring a solid capital structure.

Further information on financial risks is provided in the risk report on page 129 et seq.

The Group manages its capital structure and adjusts it to account for changes in economic conditions. To maintain or adjust the capital structure, the Group may make adjustments to dividend payments to shareholders, repay capital to its shareholders or issue new shares.

As of December 31, 2010 and December 31, 2009, respectively, no changes were made to the objectives, guidelines or processes.

The Group monitors its capital through the aforementioned leverage ratio.

Cash flow statement

The cash flow statement is reported in accordance with IAS 7. The cash and cash equivalents presented here correspond to the "cash and cash equivalents" item on the balance sheet.

All investments for expanding the Group's own retail business, as well as the first purchase price payment for acquiring the shares of the joint venture companies, were financed from the Group's own cash flow. It was therefore not necessary to utilize the revolving credit line from the syndicated loan. In addition, the level of cash and cash equivalents has increased significantly compared to December 31, 2009.

In the past fiscal year, **CASH FLOW FROM OPERATING ACTIVITIES** amounted to EUR 308 million, down roughly 10% on the previous year's level (2009: EUR 344 million). In the previous year, the reduction of net working capital had led to a non-recurring cash inflow. In light of the recovery in demand in the current year and the anticipated business development, this effect slowed down significantly in fiscal year 2010 as expected. As of the end of fiscal year 2010, there was a negative cash flow effect from the change in net working capital of EUR 9 million (2009: positive effect of EUR 184 million). The sharp increase in consolidated net income, which increased by EUR 85 million to EUR 189 million (2009: EUR 104 million), had the opposite effect. Owing to a lower average interest rate and the interest received from the short-term investment of cash, the net cash outflow from interest expenses and interest income decreased to EUR 18 million (2009: EUR 22 million). The aforementioned values cannot be derived from the balance sheet since the cash flow statement was adjusted for currency effects.

30 — CASH FLOW FROM OPERATING ACTIVITIES – 5-YEAR-COMPARISON (in EUR million)

The **CASH OUTFLOW FROM INVESTING ACTIVITIES** of EUR 62 million was higher than the previous year's level (2009: EUR 44 million). Payments for investments chiefly related to the acquisition of property, plant and equipment for the further expansion of the Group's own retail business. In addition, the first tranche of the agreed purchase price payment for the acquisition of the joint venture in China resulted in cash outflows of EUR 10 million (HKD 96 million). These were partly offset by the acquired cash and cash equivalents of EUR 3 million.

In fiscal year 2010, the **CASH OUTFLOW FROM FINANCING ACTIVITIES** in the amount of EUR 68 million (2009: EUR 211 million) was mainly affected by the payment of the dividend for fiscal year 2009.

CASH AND CASH EQUIVALENTS increased to EUR 295 million as of December 31, 2010 (2009: EUR 114 million). Currency effects totaling EUR 3 million had a positive effect on the liquidity situation.

Net financial position

The net financial position contains the total of all financial liabilities due to banks minus cash and cash equivalents.

At EUR 496 million as of the reporting date, financial liabilities due to banks were slightly higher than the previous year's level (2009: EUR 493 million). EUR 450 million of this relates to the fixed credit line of the syndicated loan drawn down by HUGO BOSS International B.V.

Due to the continued positive development of the cash flow from operating activities, the cash and cash equivalents item as the liquidity reserve for the Group increased from EUR 114 million as of the reporting date in 2009 to EUR 295 million as of December 31, 2010.

The net financial position – the net amount of liabilities due to banks less the liquidity reserve – thus improved by EUR 178 million from EUR 379 million in the previous year to EUR 201 million as of the reporting date.

31 — NET FINANCIAL POSITION (in EUR million)

32 — CASH AND CASH EQUIVALENTS (in EUR million)

CAPITAL EXPENDITURE

In the past fiscal year, the total volume of capital expenditure in property, plant and equipment and intangible assets of the HUGO BOSS Group amounted to EUR 56 million, up around 15% year-on-year (2009: EUR 48 million).

Figure 33 on page 119 gives a 5-year-comparison of capital expenditure.

Accounting for 70% of the total volume of capital expenditure, **THE GLOBAL EXPANSION AND MODERNIZATION OF THE GROUP'S OWN RETAIL NETWORK FORMED THE FOCUS OF NEW INVESTMENTS** in 2010. A total of around EUR 29 million (2009: EUR 24 million) was invested in expanding this distribution channel by opening new stores and acquiring existing ones. In addition to the expenditure for new locations, EUR 10 million was spent on the modernization and renovation of existing stores (2009: EUR 2 million).
Besides this, EUR 3 million (2009: EUR 3 million) was spent on the opening and expansion of existing showrooms and outlets, plus a number of smaller projects.

The second largest item within capital expenditure, with a total volume of EUR 9 million (2009: EUR 7 million), is the **FURTHER DEVELOPMENT OF THE HUGO BOSS LOGISTICS AND DISTRIBUTION SYSTEMS**. This includes the connection of additional directly operated stores to the SAP Retail software which is used throughout the Group, and the development of the U.S. online store. Various other investments in the area of administration, such as the construction of office buildings and replacement of office equipment, added up to approximately EUR 2 million (2009: EUR 3 million).

A further EUR 3 million (2009: EUR 9 million) was invested in the **EXPANSION OF PRODUCTION, LOGISTICS AND WAREHOUSING CAPACITY**. This includes in particular capital expenditure of EUR 1 million for the modernization and expansion of the largest Group-owned production facility in Izmir (Turkey).

Capital expenditure in Group's own retail business by region

The strategic realignment of the Group and the clear decision to expand the Group's own retail business in the **ASIA/PACIFIC** region resulted in capital expenditure of EUR 15 million in the past fiscal year (2009: EUR 5 million). Another 27 locations were added in this region in addition to the stores acquired as part of the joint venture. As of the end of fiscal 2010, the HUGO BOSS retail network in the Asia/Pacific region thus consists of a total of 171 own retail stores (December 31, 2009: 111).

In **EUROPE**, too, the Group continued to invest in targeted new openings and the systematic expansion and modernization of the own retail network in fiscal year 2010. The capital expenditure of around EUR 16 million (2009: EUR 11 million) resulted from the opening of 39 new locations, primarily store units, and the modernization and renovation of existing locations. As of December 31, the number of own retail stores in Europe totaled 253 (December 31, 2009: 219).

33 — CAPITAL EXPENDITURE – 5-YEAR-COMPARISON (in EUR million)

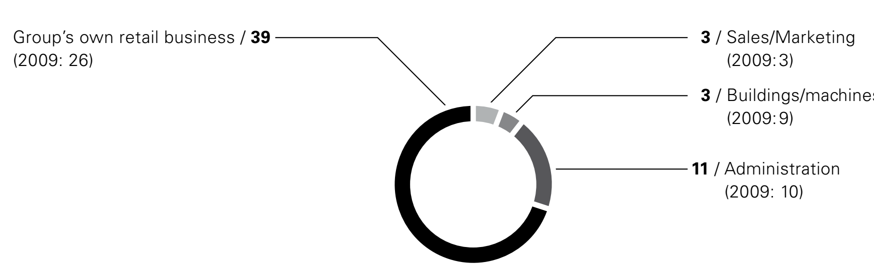
The expansion of the Group's own retail business was also stepped up in the **AMERICAS** region in 2010, with twelve new openings and the modernization of existing locations. This corresponds to capital expenditure of EUR 8 million (2009: EUR 10 million). This brought the total number of stores on the American continent in 2010 to 113 (December 31, 2009: 108).

Cumulated depreciation of fixed assets taking into account capitalized development costs amounted to EUR 450 million (2009: EUR 387 million).

→ For other financial obligations please refer to the notes to the consolidated financial statements on page 208.

Existing obligations arising from investment projects that have already been started amounted to EUR 3 million as of December 31, 2010 (December 31, 2009: EUR 3 million).

34 — CAPITAL EXPENDITURE BY INVESTMENT AREA (in EUR million)



OVERALL STATEMENT ON THE ECONOMIC SITUATION

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

EARNINGS PERFORMANCE

in EUR million	2010	2009	Change in %
Net Sales	**1,729.4**	**1,561.9**	**11**
Gross Profit	**1,027.2**	**847.1**	**21**
in % of sales	59.4	54.2	
EBITDA	**336.1**	**224.5**	**50**
in % of sales	19.4	14.4	
EBITDA before special items	**349.8**	**267.2**	**31**
in % of sales	20.2	17.1	
EBIT	**263.9**	**155.4**	**70**
in % of sales	15.3	10.0	
Earnings before taxes	**249.2**	**136.6**	**82**
in % of sales	14.4	8.7	
Net income	**189.2**	**104.0**	**82**
in % of sales	10.9	6.7	

KEY FINANCIAL INDICATORS

			2010	2009
Equity ratio in %	=	Shareholders' equity / Total assets	26.6	19.3
Return on equity in %	=	Net income / ø Shareholders' equity[1]	66.9	50.5
Net financial position (in EUR million)			201.1	379.1
Total leverage	=	Net financial position / EBITDA before special items and SAR[2]	0.6	1.4
Net working capital (in EUR million)			204.8	223.0
Net working capital (in % of sales)[3]			12.9	20.3
Free cash flow (in EUR million)			246.3	299.5

1 Average shareholders' equity of the single months of fiscal year 2010.
2 SAR = Expenses for the „Stock Appreciation Rights Program".
3 Moving average of net working capital in % of sales.

COMPENSATION FOR THE MANAGING AND SUPERVISORY BOARDS

This report explains the structure and amount of the compensation for the Managing Board and the Supervisory Board. The structure of Managing Board compensation was altered in fiscal year 2010. Instead of annual variable components, the total compensation for the Managing Board now includes variable compensation components with a long-term incentive effect.

Compensation of the Managing Board

Compensation for members of the Managing Board in fiscal year 2010 totaled EUR 3,248 thousand (2009: EUR 4,927 thousand). EUR 3,248 thousand of this amount (2009: EUR 2,642 thousand) relates to fixed components. The annual variable components were removed in 2010 and amounted to EUR 0 thousand in 2010 (2009: EUR 2,285 thousand) due to the switch to variable compensation components with a medium-term incentive effect. The fixed salary components paid to members of the Managing Board comprise, besides the salary, benefits such as company cars and other benefits in kind forming part of the salary, as well as other equipment and services necessary for Managing Board members to fulfill their duties.

The variable compensation components with a long-term incentive effect consist of a multi-year bonus granted in line with the achievement of personal targets agreed with the Supervisory Board and the fulfillment of the pre-defined key figures EBITDA before special items and trade net working capital. This multi-year bonus will be calculated conclusively and paid out after the end of fiscal year 2012. Advance payments of the bonus expected in 2013 are made starting from 2011. If the amount of the outstanding payment in 2013 is negative, this must be repaid to HUGO BOSS AG by the Managing Board member. Additions to the provision for the multi-year bonus are made proportionally. A provision of EUR 3,025 thousand was recognized for fiscal year 2010 (2009: EUR 0 thousand).

Managing Board members holding office as of the reporting date are not eligible to participate in the "Stock Appreciation Rights Program". In the event of early or regular termination of their duties, Managing Board members are not entitled to payments.

In addition, the Company has provided pension benefits for Managing Board members. The amount of future pension benefits is based on each member's base salary and years of service. In 2010, additions to pension provisions for Managing Board members (excluding deferred compensation) amounted to EUR 1,964 thousand (2009: EUR 1,015 thousand).

Compensation of the Supervisory Board

According to the German Corporate Governance Code, the compensation of Supervisory Board members is divided into a fixed and a variable component. The variable compensation component is determined on the basis of earnings per share. The position of the chairman of the Supervisory Board and his deputy are taken into account when determining the level of compensation. The Supervisory Board received total compensation of EUR 1,224 thousand for its services in 2009. For fiscal year 2010, total compensation is expected to be EUR 1.461 thousand, including a provision for the variable component of EUR 738 thousand (2009: EUR 695 thousand) calculated on the basis of earnings per share.

SPECIAL LEGAL DISCLOSURES

Report on relations with affiliated companies

The Managing Board of HUGO BOSS AG is required 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 with Permira Holdings Limited, Guernsey and the companies belonging to the HUGO BOSS Group. In terms of its relations with affiliated companies, the Managing Board issued a report and summarized in a declaration "… that the Company received appropriate compensation for all transactions in accordance with the conditions known at the time of the respective transaction. The Company did not take nor neglect to take measures at the instigation of or in the interests of Permira Holdings Limited, Guernsey or of its affiliated companies."

Disclosures pursuant to Section 289 Paragraph 4 and Section 315 Paragraph 4 of the German Commercial Code (HGB)

The requirements pursuant to Section 289, Paragraph 4 and Section 315, Paragraph 4 of the HGB are listed and explained in the following. The Managing Board sees no need for further explanation as set forth in Section 175, Paragraph 2, Sentence 1 and Section 176, Paragraph 1, Sentence 1 of the German Stock Corporation Act (AktG).

The **SHARE CAPITAL** of HUGO BOSS AG continues to consist of 35,860,000 common shares (50.9%) and 34,540,000 non-voting preferred shares (49.1%), equivalent to a share in the issued share capital of EUR 1.00 per common or preferred share. Holders of preferred shares are entitled to a preferred dividend of EUR 0.01 per share upon distribution of the retained earnings. This means that the dividends paid to bearers of preferred shares from net retained earnings are EUR 0.01 higher per preferred share than the dividends paid to bearers of common shares. The dividend for preferred shares amounts to no less than EUR 0.01 per share.

Unlike the common shares, the **PREFERRED SHARES ARE NON-VOTING SHARES**. There are no legal or statutory restrictions on voting rights or transfer of shares. The Managing Board is not aware of any such agreements between shareholders.

THERE ARE SHAREHOLDINGS EXCEEDING 10% OF THE VOTING RIGHTS. In fiscal year 2010, HUGO BOSS AG was notified of one voting rights announcement pursuant to Section 21 Paragraph 1 and Section 22 of the German Securities Trading Act (WpHG).

→ —
The voting rights announcement is listed in the notes to the consolidated financial statement under "Information Concerning the Majority Shareholder" on page 222 et seq.

Apart from that, no other shareholders have reported holdings equivalent to more than 10% of the voting rights. Moreover, the Company received no other new reports of shareholdings of 3% or more of the voting rights in HUGO BOSS AG.

HUGO BOSS AG has not issued shares vested with special rights granting powers of control. No special provisions exist with regard to the exercise of shareholder rights by shareholders who are employees of HUGO BOSS AG.

The **APPOINTMENT AND REVOCATION OF MANAGING BOARD MEMBERS** of HUGO BOSS AG is based on Sections 84 and 85 of the German Stock Corporation Act (AktG) and Section 31 of the German Co-Determination Act (MitbestG) in connection with Section 6 of the Articles of Association. Pursuant to Section 6, Paragraph 1 of the Articles of Association, the Managing Board consists of at least two members. The number of Managing Board members is determined by the Supervisory Board pursuant to Section 6, Paragraph 2 of the Articles of Association. The Supervisory Board may appoint a chairman of the Managing Board as well as a deputy chairman. The Supervisory Board can revoke the appointment of a Managing Board member and the appointment of the chairman of the Managing Board for good cause. According to Section 6, Paragraph 3 of the Articles of Association, Managing Board members generally should not be more than 60 years of age at the time of their appointment. The Supervisory Board appoints Managing Board members for a maximum of five years.

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 adopted pursuant to Section 17, Sentences 2 and 3 of the Articles of Association by a simple majority of the votes cast and, if a majority of the capital represented upon adoption of the resolution is required, by a simple majority of the share capital represented upon adoption of the resolution. According to Section 20 of the Articles of Association, the Supervisory Board is authorized to adopt modifications to the Articles of Association that affect the wording only.

Details on the topic of the internal control, risk management and auditing system can be found in the Risk Report on page 126 et seq.

Authorization of the Managing Board to increase the share capital (Authorized Capital 2009) with the option to exclude subscription rights

Pursuant to a decision of the Annual Shareholders' Meeting held on May 14, 2009, the Managing Board is authorized, with the consent of the Supervisory Board, to increase the share capital of the company until May 13, 2014 by a total of no more than EUR 35,200,000 through the issuance of new bearer common shares and/or non-voting bearer preferred shares, which correspond to the non-voting bearer preferred shares already issued, in return for cash and/or deposits in kind. Increases in capital can be made in return for cash while maintaining the relationship of the two categories of shares to one another. If authorized capital is used, the shareholders have a subscription right. However, the Managing Board is authorized to prevent shareholders from transferring their subscription rights from one class of shares to the other, to exempt fractional amounts of the shareholders' subscription rights, and to participate in the shareholders' subscription rights with the consent of the Supervisory Board, if a capital increase against deposits in kind is issued for the purpose of acquiring a company or an equity interest in a company.

Authorization to purchase and use treasury shares, also excluding tender rights and subscription rights, including the authorization to redeem purchased treasury shares and capital reduction

The Managing Board's authorization to repurchase shares was renewed at the Annual Shareholders' Meeting on June 21, 2010. In accordance with this, the Managing Board is authorized until June 20, 2015 to purchase bearer common and/or non-voting bearer preferred shares of HUGO BOSS AG up to an overall maximum of 10% of its capital outstanding on June 21, 2010. HUGO BOSS AG may avail itself in whole or in part of its authorization to purchase treasury shares only for bearer common and/or bearer preferred shares, thereby partially excluding any put options relating to those classes of shares, and do so once or several times in pursuance of one or more objectives. The shares may be purchased via the stock market or by means of a public tender 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, excluding shareholders' subscription rights. They may also be used as consideration for a possible acquisition of enterprises or shareholdings in enterprises, or may be sold at a price that is not substantially lower than the current stock market price, or for listing of the stock on foreign stock markets.

HUGO BOSS International B.V.'s syndicated loan guaranteed by HUGO BOSS AG and the bilateral lines of credit contain standard **AGREEMENTS THAT GIVE ADDITIONAL RIGHTS OF TERMINATION TO BOTH PARTIES TO THE CONTRACT IF A CHANGE OF CONTROL OCCURS DUE TO A TAKEOVER BID** (change of control clauses).

The Company has not entered into any compensation agreements with members of the Managing Board or employees for the event of a takeover bid.

REPORT ON RISKS AND OPPORTUNITIES

In addition to ensuring the going concern of the Group, the aim of the risk and opportunity policy of the HUGO BOSS Group is to sustainably increase the enterprise value and to achieve its financial and strategic objectives. Effective risk management ensures that risks are detected early and matched to corresponding opportunities, keeping possible negative effects on the Company's success as small as possible. Decisions on pursuing identified opportunities are based on the Company's medium- and long-term strategy, also taking account of associated risks.

RISK REPORT

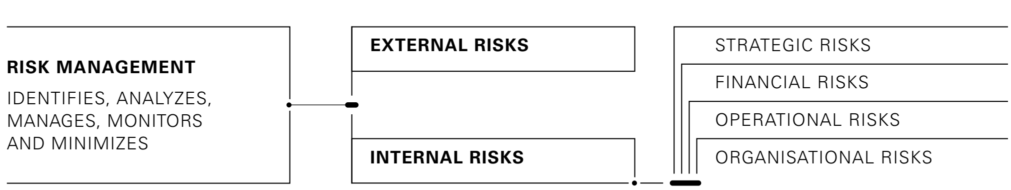
The basis for successful risk management is set out in uniform group-wide standards and risk limits. These are laid down for the HUGO BOSS Group by the Managing Board and documented in a Risk Manual which applies to the whole Group and is available to the employees online. Regular reporting ensures that risks are identified early, analyzed and monitored, resulting in full transparency of the risk situation. Furthermore, all HUGO BOSS Group employees are committed to acting with awareness of risks and to avoiding risks that could threaten the Group's going concern.

Risk management

Chart 35 on page 126 gives an overview of risk management.

The coordination of **GROUP-WIDE RISK MANAGEMENT** is centrally guided in HUGO BOSS AG's Risk and Insurance Management department to recognize risks and opportunities at an early stage in order to analyze, manage, monitor and counteract them if needed with risk-minimizing measures. This department is continuously further developing the tools for the risk management system and ensures that risks and opportunities are recorded systematically using a uniform method throughout the Group and regularly within the defined intervals. Responsibility for handling risks appropriately and implementing effective risk-reducing measures is decentralized to the individual divisions where the risks may arise. Risk owners are defined for each division. In addition to the risk management process, limits are established which describe the risk-bearing capacity of the HUGO BOSS Group and classify all risks in categories from "low" to "significant". The Managing Board and Supervisory Board are regularly informed about the risk situation, the development of the most important risks, and new risks. Risks relevant to HUGO BOSS can be broken down into external and internal risks, and the latter can be further subdivided into strategic, financial, operational, and organizational risks. Risks are handled in four ways: avoidance, reduction, transfer and acceptance. Consequently, **TRANSFERRING RISKS TO INSURANCE COMPANIES** is part of risk management. This neutralizes the financial consequences of insurable risks to the furthest extent possible.

35 — RISK MANAGEMENT



Risks are reviewed at least once a year, and depending on their magnitude also at six-month, quarterly and monthly intervals, to ensure that they reflect the current situation. Individual risk entries are revised or supplemented as necessary. Risks are quantified by estimating their probability of occurrence and their potential effects on the Group's performance. **DIFFERENT RISK SCENARIOS** for the best, average and worst cases are considered in order to obtain a picture of the risks as differentiated as possible. This takes into account the potentially strong influence of extreme scenarios which have a low probability of occurrence, but a major impact.
Medium-term risk trends are also calculated in addition to the 12-month planning period used for risk quantification.

Irregularities can be recognized at an early stage by continuously monitoring early warning indicators. Should a risk materialize, reporting chains are triggered and appropriate pre-defined countermeasures are initiated to guarantee a rapid response.
The **HUGO BOSS GROUP IS ABLE TO IDENTIFY RISKS AT AN EARLY STAGE AND TO RESPOND QUICKLY AND APPROPRIATELY**. The risk management system is also monitored at regular intervals by the Internal Audit department to ensure its proper functioning. As part of the audit of the annual financial statements, the independent auditor verifies that the Managing Board has undertaken the steps necessary according to Section 91, Paragraph 2 of the German Stock Corporation Act (AktG) in appropriate manner.

External risks

The **GENERAL ECONOMIC RISKS** facing the HUGO BOSS Group are to be seen in the context of the general global economic situation, which can result in reduced demand for textile goods and accessories in the premium fashion and luxury market. The incoming order entries are an important early warning indicator for forecasting the effects of possible general economic risks. HUGO BOSS pursues a strategy of strong brand positioning as a way of increasing market share in a highly competitive environment. A business model geared towards international growth also taps new consumer potential and helps to compensate for possible declines in demand in individual markets. The Group also aims for a balanced distribution of sales across different regions to avoid being overly dependent on individual markets. HUGO BOSS will therefore continue to seek to expand in profitable growth regions, notably the Asia/Pacific region. The positive sales development of the HUGO BOSS Group in the fiscal year 2010 shows that these measures were successful and HUGO BOSS enjoys a strong market position. As a fashion and lifestyle company, HUGO BOSS is exposed to **SECTOR RISKS** with every new collection due to changing fashion and lifestyle trends. Rapidly changing trends must be identified and implemented at an early stage. The challenge is twofold – identifying the right trends in time and then quickly making them into an unmistakable collection. HUGO BOSS counteracts this risk with in-depth analysis of target groups and markets as well as by using different design teams for each brand and line. Pre-collections also ensure that trends can be implemented at an early stage. Initiatives to shorten the product development cycle so as to react faster to market trends have also been implemented. As a fashion group that is active internationally, HUGO BOSS is also exposed to **COUNTRY RISKS**. In order to minimize these risks, HUGO BOSS products are mainly sold in countries with stable economic and political environments. As is the case for all companies, terrorist acts and environmental disasters constitute a possible risk to the Company's net assets, financial position and earnings. Environmental disasters may have practical relevance, e.g. with regard to earthquake risk at the production site in Turkey. Potential losses and relocation options have been identified and the risks of financial loss have been covered to the fullest extent possible with insurance policies.

Further information on the expected economic situation can be found in the outlook on page 141 et seq.

Internal risks

Strategic risks

Additional information on strategic measures can be found in "Group Strategy" on page 73 et seq.

Financial success at HUGO BOSS rests on its **BRAND IMAGE** and its long-term positioning of the BOSS core brand and the HUGO trend-setting brand in the premium and luxury market. Protecting and maintaining brand image is therefore a correspondingly high priority at HUGO BOSS. This is implemented partly in the form of strategic measures such as clearly defined brand positioning supported by targeted brand communication involving marketing, events and sponsoring. The brand's trademark protection and the prosecution of counterfeiters are a key part of securing brand image. HUGO BOSS counteracts this risk with a uniform global brand image as well as an ongoing monitoring and analyses of the markets. **PRODUCT QUALITY** also plays a key role in brand image. Products are subject to standardized 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. The headquarters in Metzingen coordinates worldwide shipping. This centralized management system ensures that HUGO BOSS' high quality standards are consistently adhered to and customers receive their deliveries in good shape and on schedule.

The HUGO BOSS Group's **CORPORATE IMAGE** is reflected in its perception by its stakeholders, such as customers, shareholders, suppliers and employees. To avoid possible negative effects on the corporate image resulting from non-compliance with laws, standards and guidelines, suppliers are required to adhere to social standards. A company-wide code of conduct, supplemented with specific guidelines, ensures that employees act in compliance with the regulations. Corporate communications with external parties are managed centrally through the Communications and Investor Relations departments.

Additional information on investment controlling can be found in "Group Management" on page 72.

One of HUGO BOSS' main strategic objectives is the continued expansion of the Group's own retail business. Retail activities involve **INVESTMENT AND COST RISKS** due to investments in shop construction, long-term leases and increased fixed costs. In order to minimize the risk of false investments and unprofitable Group retail activities, decisions regarding new store openings and store closures are made centrally in consultation with the responsible regional directors. The opening of any new store is always preceded by extensive examinations of the location and analyses of its potential and by intensive sales and development planning.

Group companies are required to submit monthly reports on the performance of their own retail activities. Continuous monitoring of their performance ensures that the onset of any negative trends at individual stores can be recognized early and countermeasures taken, such as possible restructuring. The investment risk is also minimized by implementing a globally uniform store concept, so that in the event of a store closure some of the furniture can be used at other locations.

Financial risks

The main responsibilities of the HUGO BOSS Group include coordinating and steering the financial requirements within the Group, ensuring the financial independence of the Group as a whole, and reducing financial risks, also through the use of financial instruments. Financial risks are continually monitored, quantified and – if necessary – hedged in order to reduce balance sheet effects. The HUGO BOSS Group is primarily subject to risks related to changes in interest rates, liquidity, currency exchange rates and counterparty default, which may influence the Group's earnings, net assets and financial position.

Financing and liquidity risks

Managing liquidity risk is one of the main responsibilities of the HUGO BOSS AG Treasury Department. Current or future payment obligations may not be met due to insufficient available cash and may therefore represent a liquidity risk. To guarantee the Group's solvency and financial flexibility at all times, financial requirements are calculated by means of a three-year financial plan. Additionally a currency-differentiated liquidity planning is being prepared on a monthly basis and then covered by credit lines and cash.
HUGO BOSS prevents financing risks by ensuring adequate availability of credit lines. A medium-term syndicated credit line of EUR 750 million allows for financial flexibility. In addition to the syndicated loan, HUGO BOSS also has short-term bilateral credit lines available amounting to EUR 83 million. The liquidity and financing risks are further reduced by an internal financial compensation mechanism and by cash pooling.

In addition to the credit lines in place on December 31, 2010 amounting to EUR 833 million, the Group had liquid funds of EUR 295 million as of the reporting date. Consequently, HUGO BOSS regards the probability of financing and liquidity risks as very low. HUGO BOSS does not see any risks from infringements of financial covenants, even in the case of overall economic conditions further deteriorating.

Interest rate risks

The interest rate risk arises due to market-driven fluctuations in interest rates, which firstly impact the level of interest expenses in the HUGO BOSS Group and secondly influence the market value of financial instruments. Significant changes in interest rates could therefore affect the profitability, liquidity and financial position of the Group.

The major part of the financial liabilities of the HUGO BOSS Group are floating-rate debts and are subject to short-term interest fixing. They are therefore exposed to an increased interest rate risk and represent a cash flow risk. To minimize the effects of future interest rate volatility on financing costs, derivative financial instruments are used on a case-by-case basis in the form of interest rate swaps. Derivatives in an effective hedge relationship impact equity in the event of interest rate changes, whereas derivatives without hedge relationships are recognized in profit or loss.
Opportunity effects can also occur. These arise as a result of the balance-sheet recognition of non-derivative financial instruments which are measured at cost rather than at fair value. The opportunity risk represents the difference between the two values which is not recognized in the balance sheet or in the income statement.

As of December 31, 2010, about EUR 313 million of the floating-rate financial liabilities were hedged against an interest rate increase with payer swaps. Other fixed interest bearing debts are not subject to interest rate risk.
Whereas in previous years the sensitivity analysis was based on a parallel shift in the yield curves of +100 / –100 basis points, for the 2010 sensitivity analysis the shift in the yield curves was changed to +100 / –30 basis points due to the current low interest level in order to avoid negative interest and to represent realistic scenarios. Taking into account the underlying exposures in EUR, USD, CHF and JPY, HUGO BOSS considers the +100 / –30 basis point shift to be appropriate.

in EUR million	**+100 bp**	**–30 bp**
Cash flow risk	(1.1)	0.3
Risks from interest rate derivatives recognized in income	0.8	(0.3)
Effect on net income	**(0.3)**	**0.0**
Risks from interest rate derivatives reflected on the balance sheet	5.3	(1.6)
Effect on Group equity	**5.0**	**(1.6)**

The effects of changes in key interest rates on income and equity were analyzed in accordance with the requirements of IFRS 7. The analysis included interest rate derivatives amounting to EUR 313 million and floating-interest rate financial liabilities of EUR 463 million (December 31, 2010). The effect of interest rate changes on future cash flows is not included in the analysis.

In the event of an interest rate increase of 100 basis points on December 31, 2010, the equity would have increased by EUR 5 million predominantly due to fair value changes of interest rate derivatives. Net income would have decreased only marginally due to interest compensations. An interest rate decrease of 30 basis points on December 31, 2010 would have led to a decrease in equity of approximately EUR 2 million. Net income would have remained unchanged in this case.

On the basis of the effects of interest rate changes of +100 / –30 basis points on the financial instruments as shown in the sensitivity analysis, the interest rate risk for the HUGO BOSS Group is regarded as low.

Currency risk
The currency risks of the HUGO BOSS Group mainly result from its operating business as well as from its financing activities.

In operating business, currency risks occur primarily when sales are realized in a currency other than the company's functional currency (transaction risk) and due to intercompany financing activities in non-euro companies.

Details on currency conversion are explained in the notes to the consolidated financial statements on page 170 et seq.

The HUGO BOSS Group is represented by local subsidiaries in the most important core markets. These subsidiaries sell products to local customers within a certain geographic area. The subsidiaries place the orders arising from this business exclusively within the Group. Intercompany orders are generally denominated in the local currency in order to manage the currency risk centrally. The currency risk therefore arises from cash flows denominated in the local currencies of subsidiaries and in euro as the functional currency of HUGO BOSS AG and in Swiss francs as the functional currency of HUGO BOSS Ticino S.A., Switzerland.

Currency risks of the HUGO BOSS Group arising from business operations are incurred mainly from activities in the U.S., the United Kingdom, Australia, Canada, Switzerland, Japan, Hong Kong and China.
Furthermore, currency risks arise from the conversion of the net assets of foreign subsidiaries located outside the eurozone and their income and expenses (translation risk), against which the Group does not take hedging measures.

CURRENCY MANAGEMENT FOR TRANSACTION RISKS is carried out centrally for all Group companies. The primary goal is to reduce the overall currency exposure by natural hedges. These hedges consist of partially balancing the currency exposure from business operations across the Group. For the balanced positions no further hedging measures are necessary. In order to reduce the remaining transaction risk with additional natural hedges, HUGO BOSS always aims to increase cash outflows in currencies with an existing net cash surplus.

Forward exchange contracts, swaps and plain vanilla currency options can be used to hedge the remaining exposure. The primary goal of the hedging strategy is to limit the effects of exchange rate fluctuations on the balance sheet. The term of the derivatives entered into is generally up to 12 months. The purpose of the derivatives entered into is purely to hedge underlying transactions traded in the OTC market. In order to obtain the best possible deal, quotes are obtained from a number of banks. Transactions are contracted with the bank quoting best.

Foreign currency risks from financing activities result from financial receivables and liabilities in foreign currencies and from loans in foreign currencies which are granted to Group companies for financing purposes. In the case of loans granted to Group companies, a distinction is made between short-term and long-term contracts. Short-term loans can be drawn down flexibly in line with the character of an overdraft credit line. As of the reporting date, the main long-term loans with repayment on final maturity were hedged with forward exchange contracts. The remaining term was up to 28 months.

Group-wide guidelines ensure a strict separation of functions between trading, processing and control. These guidelines also constitute the basis for hedging activities. The goal of currency hedging is to reduce currency effects on the development of Group’s net income and equity.

In contrast to the previous year, the calculation of the currency risk is based not on the planned foreign currency exposure but on the actual exposure recognized as of December 31. This is due to the change in the hedging strategy, which is now aimed at limiting balance sheet risks rather than at hedging future cash flows as previously.
The exposure comprises cash and cash equivalents, receivables and liabilities and intercompany loans held in currencies other than the functional currency of the subsidiary in question. Effects due to the translation of financial statements from foreign subsidiaries outside the eurozone have not been taken into account.

Based on the requirements of IFRS 7, the HUGO BOSS Group has calculated the effects of changes in the most important exchange rates on income and equity. The following sensitivity analysis shows the impact on net income and equity in case of different price risk variables compared to the reporting date.
It is assumed that the level at the reporting date is representative for the year as a whole.

EXPOSURE AT THE REPORTING DATE DECEMBER 31, 2010

in EUR million	USD	GBP	AUD	CAD	CHF	JPY	HKD
year-end rate	1.3362	0.8608	1.3136	1.3322	1.2504	108.65	10.3856
Gross currency exposure	**37.6**	**(0.9)**	**26.2**	**9.3**	**(29.0)**	**32.4**	**(7.2)**
Hedging	44.9	0.0	0.0	7.3	0.0	19.0	(5.9)
Net currency exposure	**(7.3)**	**(0.9)**	**26.2**	**2.0**	**(29.0)**	**13.4**	**(1.3)**
historic volatility	12.3	9.8	12.2	12.0	9.2	15.4	12.3
Appreciation of the euro by standard deviation							
Net income	0.6	0.1	(2.2)	(0.2)	1.9	(1.4)	0.1
Depreciation of the euro by standard deviation							
Net income	(0.6)	(0.1)	2.2	0.2	(1.9)	1.4	(0.1)

Historic volatility in the individual foreign currencies was used to take account of the different fluctuations in the foreign currencies relevant to the HUGO BOSS Group against the euro and the requirements of IFRS 7 of a "change considered possible" in the exchange rates. This historic volatility was calculated on the basis of daily fluctuations over the past 12 months. There are no effects on the Group equity arising from currency hedging transactions accounted for as cash flow hedges according to IAS 39.

Credit risks

Further information on credit risk is available in note no. 25 of the notes to the consolidated financial statements on page 201 et seq.

The credit risk related to financial institutions arises primarily from the investment of liquid funds as part of liquidity management, from short-term deposits of bank balances where necessary, and from trading in derivatives.

With financial instruments, the Group is exposed to a (bank) default risk resulting from the possible counterparty default. The maximum amount of this risk is therefore the positive fair value of the financial instrument in question. To minimize default risk, the HUGO BOSS Group concludes financial instruments only with counterparties with first class credit ratings and adheres to predetermined risk limits. Only in exceptional cases and with the approval of the Managing Board may investments be made or derivative transactions entered into – within narrow limits and terms – with banks with a lower credit rating. HUGO BOSS assumes that risk concentration is low and considers the probability of default by counterparties to be very low.

In operating activities, credit risks primarily arise due to trade receivables. The credit rating of new customers is examined before a business relationship is entered into. Assessments from external credit agencies are used for this. Customers whose credit rating does not satisfy the Group's minimum requirements can either purchase products with advance payments only, or a collateral is required. This might include first-class bank guarantees or letters of credit.

Share price risk

The HUGO BOSS Group employs derivatives to hedge against future expenditure associated with the share-based compensation program "Stock Appreciation Rights Program". The scope of derivative hedging instruments was changed provided that obligations in connection with the "Stock Appreciation Rights Program" did not arise. Therefore, the risk of a negative impact on earnings, net assets and the financial position is regarded as low by the HUGO BOSS Group.

Details on the „Stock Appreciation Rights Program" are given under note no. 36 of the notes to the consolidated financial statements on page 214 et seq.

Operational risks

The high quality requirements for HUGO BOSS products and thus the sourcing and production processes require close partnerships with suppliers. This close cooperation with partners can entail **SOURCING, PRODUCTION AND LOGISTICS RISKS**. In order to ensure reliable availability of production materials and capacities of a suitable quality and at prices in line with the market, orders to suppliers, utilization of manufacturers' capacity and deliveries of raw materials to them are coordinated centrally. The implementation of a "preferred supplier" policy resulted in even closer cooperation with selected suppliers. The associated potential risk of an excessive concentration on individual suppliers and sourcing markets is countered by an appropriate amount of in-house production. In addition, suppliers must not only meet high demands with regard to quality and stock availability; they must also adhere to the required environmental and social standards.

Wage increases in emerging regions and rising raw material prices entail a risk of increasing production costs and lower margins. The HUGO BOSS Group is responding to this with margin-based collection planning in order to ensure early reaction to rising production costs. Possible negative effects on the gross profit margin are reduced through the expansion and continued professionalization of the own retail business, company-wide measures to improve efficiency in production and sourcing processes, improvement in the use of materials, and consistent implementation of the Group's price policy. As a result of prior orders and price negotiations for raw materials and production capacity, the Group can react to critical leading indicators at an early stage.

Raw materials and finished goods are stored only in a few selected locations. This consolidation trend will increase due to the establishment of a central distribution center for hanging goods at the Group headquarters at Metzingen. To counteract the risk of loss of raw materials or finished goods, which equals a loss of sales by disability to supply, strategically important warehouses are operated by the Group itself and comprehensive technical and organizational measures are taken for fire protection and security. Adherence to these measures is monitored on an ongoing basis. In addition, HUGO BOSS uses insurance policies to cover the direct financial risk of loss of goods in warehouses as well as a loss of its production sites.

Bad debt loss risk

Note no. 15 in the notes to the consolidated financial statements on page 195 gives additional details on receivables and their due dates.

The risk of losses due to bad debts depends on both the general economic development and the customers' individual financial situation. The HUGO BOSS Group is therefore exposed to negative effects due to trading partners' inability to pay or insolvency and cumulated defaults due to potential deterioration of the general economy in individual markets and regions. However, this risk is mitigated by the increase in the share of directly operated retail business in total sales. The group-wide credit management system successfully implemented in the past, which operates in accordance with uniform rules, was further intensified by centrally-coordinated measures. These measures focus on credit screening and granting and adhering to customer credit limits, monitoring the receivables' age structure, and managing doubtful accounts. In some cases, business with customers deemed not creditworthy were foregone. The Internal Audit department regularly reviews adherence to these Group guidelines. There was no concentration of default risks due to major receivables against single customers as of the reporting date. All receivables reported as of December 31 were secured across the Group with credit insurance. The default risk of insured receivables is limited to the deductible. Due to lower insurance cover, the credit insurance was canceled as of January 1, 2011.

Inventory risk

Additional information on net working capital can be found in "Net Assets and Financial Position" on page 113.

Inventory management will continue to be of major importance. The challenge is to be able to respond to orders from customers at short notice while still optimizing inventories. Replenishment is coordinated by a central department to reduce inventory risk and to optimize the inventory position in general.

Distribution risks

The Company strives to maintain a balanced customer structure to avoid distribution risks. The expansion of the Group's own retail activities reduces reliance on the wholesale business. Key figures such as order levels, sales, and delivery rates are monitored on an ongoing basis in real time by the sales controlling department.

Organizational risks

The uniform IT infrastructure across the Group facilitates smooth business operations. To reduce **COMMUNICATION AND INFORMATION TECHNOLOGY RISKS**, such as system interruptions, data loss, and unauthorized access, a number of measures are implemented in the form of multi-level security and virus plans, issuing access rights, access control systems and independent energy supplies.

As part of global business operations, **LEGAL RISKS** may arise. To avert litigation to the greatest extent possible, all significant legal transactions of the HUGO BOSS Group are reviewed and approved by the central legal department. The legal department works closely with local attorneys and the Group's subsidiaries in this process.

LIABILITY RISKS are reduced by insurance policies in effect throughout the organization. Adequate provisions were made in the past fiscal year for court costs and costs for legal counsel.

PERSONNEL RISKS arise mainly from recruiting, lack of qualifications and fluctuation. These risks are limited due to comprehensive professional development measures, performance-oriented compensation and succession planning at an early stage. Employee development is also furthered by comprehensive talent and performance management.
HUGO BOSS is characterized by a corporate culture that is based on trust and utilizes flat hierarchies. Independent thinking and own initiative are promoted at all levels. Despite extensive and multilevel auditing and controlling mechanisms, access to confidential information and the high level of entrepreneurial responsibility may be abused. HUGO BOSS has therefore included appropriate regulations in its employment contracts with all employees in line with good corporate governance. Individuals who are considered insiders as defined by securities legislation are listed in an insider register and are required to comply with the pertinent regulations. The chains of authority are also reviewed and updated on a regular basis.

Further information on employees can be found on page 79 et seq.

The corporate governance report can be found on page 47 et seq.

ASSESSMENT OF THE RISK SITUATION BY THE MANAGEMENT

Both the parent company and all the subsidiaries operate with the same kind of risk analysis and risk management, which is the organizational precondition for early detection of risks. Risks are uniformly quantified in the same way, namely by calculating their influence on EBIT and/or cash flow.

There are no individual or combined risks that could jeopardize the Group’s going concern according to current information.

REPORT ON THE ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM IN ACCORDANCE WITH SECTIONS 289 PARAGRAPHE 5 AND 315 PARAGRAPHE 2 NO.5 OF THE GERMAN COMMERCIAL CODE (HGB)

The goal of the Internal Control and Risk Management System as it applies to the accounting process and the preparation of the balance sheet of the HUGO BOSS Group is to record, present and value all business events correctly on the balance sheet. The clear definition of areas of responsibility in the finance department of HUGO BOSS AG and the proper continued professional education of employees, together with the use of the suitable software and uniform prescriptive guidelines, constitutes the basis for a proper, efficient and consistent accounting process. This ensures that the assets and liabilities in the consolidated financial statements are recognized, valued and reported correctly so that they represent a reliable statement about the Group's earnings, net assets, financial position and cash flow.

Accounting-related IT systems

Management controls in all business divisions require correct and up-to-date information. This means that business information and reporting systems are extremely important. The quality of control over operations has been greatly improved by the introduction of SAP AFS, SAP Retail and the Business Intelligence System (BIS) throughout the Group. BIS contains numerous reports and key performance indicators that both the finance department and all operational divisions can access daily.

In the finance department, the comprehensive monthly reporting package is one of the most important reporting instruments. As part of standardized group-wide reporting, all HUGO BOSS companies provide detailed information on the most important balance sheet and income statement items, as well as key figures and additional comments. Both the reporting dates and the content for this are stipulated by the central finance department and are binding. There are automated and standardized reporting formats for a large part of the reporting content. Technical responsibility for this lies with the central finance and controlling departments. In addition to centrally updating the master data of the uniform group-wide chart of accounts, this also involves reviewing the reporting formats on an ongoing basis with regard to compliance with the applicable international standards for financial reporting. In addition, the uniform group-wide mapping of HUGO BOSS' transactions is reviewed at regular intervals and corrected if the presentation differs from the actual transactions.

In order to prevent unauthorized access to accounting-related data and to ensure the integrity, availability and authenticity of the data at all times, the SAP Security Policy (part of the IT Security Guideline) was implemented throughout the Group. This guideline also includes requirements for monitoring compliance in the finance department. The IT security for accounting-related processes is supplemented with system-supported controls and workflow-based processes which stipulate a checks-and-balances principle, appropriate separation of functions, and approval processes. These include invoice auditing and authorization, purchasing processes and SAP rights management.

In addition, the IT authorization required by employees is defined by their roles, which reflect jobs or positions within the company. In order to ensure a proper separation of functions in the SAP systems, HUGO BOSS began fully implementing special detection software in 2009. This compares the rights profile of a user with a pre-installed SoD (Segregation of Duties) schedule. The software allows critical rights to be identified and appropriate countermeasures to be initiated.

The group-wide authorization management and role definition is also in the responsibility of the central IT department of HUGO BOSS AG in Metzingen.

Organization of accounting and accounting-related guidelines
All subsidiaries of the HUGO BOSS Group are independent legal entities. Each market is run by a Managing Director who is responsible for business operations and a Finance Manager for all accounting-related matters. The areas of responsibility of the Finance Manager in each market include continuous monitoring of key performance indicators, monthly reporting of key financial indicators to the central finance department, and preparation of the three-year plan. In addition, new investment projects, particularly in the area of the Group's own retail business, must be analyzed with reference to their feasibility and profitability and then agreed with the HUGO BOSS AG finance department.
As the functional superior of all Finance Managers, the Chief Financial Officer of HUGO BOSS AG is authorized to issue directives and is therefore responsible for worldwide financial management.

Furthermore, the Finance Managers and Managing Directors of HUGO BOSS companies issue what is known as a CFO Certificate every quarter confirming adherence to certain defined principles and the exercise of management controls. Some of these controls are integrated in the SAP Schedule Manager system. Reports are also submitted on the appropriateness of the control over data integrity and data access protection, and on cases of fraud or major violations of the Internal Control System.

In addition to providing active support for all business divisions and Group companies, the central finance department in Metzingen is also responsible for preparing and updating uniform guidelines and instructions for accounting-related processes. This chiefly pertains to preparing and updating a guideline on allowances for doubtful accounts, an investment guideline, the IAS/IFRS accounting manual and clear requirements for intercompany reconciliation. In addition, the first edition of the "FI/CO bible" was sent to all finance employees in the HUGO BOSS Group in the past fiscal year. Based on the mandatory requirements of the International Financial Reporting Standards, the "FI/CO bible" contains detailed instructions on mapping the relevant transactions in the SAP AFS financial accounting system. This includes the presentation in both financial accounting and controlling reports. It ensures uniform group-wide presentation and accounting while also serving as a reference for all employees in the worldwide finance departments. The central e-mail address which was set up also gives employees the opportunity to quickly address open questions to the central finance departments.

Questions on specific accounting or valuation matters relevant to the HUGO BOSS Group are also dealt with centrally, where they are analyzed and documented before being communicated to the "HUGO BOSS Financial Community". Major accounting issues and changes to the relevant IAS/IFRS standards and interpretations are discussed with the Group's auditors at regular meetings which take place at least once a quarter. Professional development events are also organized, and updates on accounting-related topics are communicated in the "Accounting Newsletter" and listed on the Group Intranet in the "Finance Forum". Training is given in financial colleges for junior employees in the finance department. The responsible Finance Managers meet once a year at the Finance Managers' Meeting.

The Internal Audit department is part of the Internal Control System and reviews the specified controls for compliance and effectiveness as part of its monitoring function. The annual audit plan and the areas it will focus on are agreed with the Managing Board. Ad-hoc audits may be carried out at any time. All audit reports are reported directly to the Chief Financial Officer and to other Managing Board members as appropriate. In addition, the Internal Audit department submits regular reports to the Audit Committee.

OPPORTUNITIES REPORT

→ Further information on the internal control system and risk management of HUGO BOSS can be found on page 126 et seq.

Systematically identifying and exploiting business opportunities is a key element of ensuring profitable growth. For this reason, HUGO BOSS has taken organizational measures to identify and take advantage of the opportunities resulting from the external environment and its own strategic orientation.

Decentralized organization of opportunity management

HUGO BOSS always considers opportunities in conjunction with associated risks. Opportunities are pursued only if the risks associated with them are proportionate to the opportunity and are considered manageable. Responsibility for identifying, assessing and exploiting opportunities lies with the operational management in the regions and central functions. Based on the potential of the identified opportunities to increase enterprise value, the Managing Board allocates the resources required to exploit the opportunity as part of long-term strategic planning and annual budget planning.

HUGO BOSS has identified a number of opportunities arising partly from the business environment but also partly from the Group strategy itself.

Growing prosperity in emerging markets

Per capita income is expected to rise substantially in many emerging economies in the coming years. In China in particular, experts anticipate considerable growth of the middle class, which spends a large proportion of its disposable income on consumer and luxury goods. On the basis of its strategic orientation and the strength of its brands, the Group considers itself to be in a good position to benefit from this development. It is working to realize the identified growth potential through market entry and market cultivation strategies specifically tailored to the individual countries.

Internationalization of business activities

HUGO BOSS has significantly advanced the international expansion of its business activities in recent years. The Group has thus tapped new consumer potential and raised the profile of its brands in future markets. In the coming years, the share of sales generated in largely saturated markets will decrease further due to above-average growth in other regions of the world. The improved regional balance of the Group's business activities makes it less dependent on economic fluctuations in individual areas. It also benefits from the fact that developing markets often have higher than average profitability.

Further information on the internationalization of the business model can be found in "Group Strategy" on page 77 et seq.

Attractive competitive positioning

HUGO BOSS is well positioned in the global fashion market. All of the Group brands stand for excellent quality, outstanding workmanship and modern design. With these brands, the consumer can be certain of being dressed in style for any occasion. The Group therefore appeals to a wide public across the whole spectrum of the fashion market. In the past two years in particular, HUGO BOSS has attracted new consumer groups from the luxury segment of the market on the basis of a good price-quality ratio. The Group also sees good opportunities in the future for attracting consumers from neighboring price segments on the basis of its positioning in the premium and luxury segment.

Expansion of own retail business

The expansion of its own retail business enables the Group to gain valuable insights into its consumers' buying behavior and thus to better gear its collection development towards consumer requirements. The comprehensive control over brand presentation at the point of sale contributes to enhancing the image of the brands and therefore increases their desirability also in other distribution channels. Developing its retail expertise also increasingly gives the Group the opportunity to take over franchise activities and to operate wholesale customers' retail space itself. HUGO BOSS is therefore convinced that the expansion of own retail activities supports the achievement of its medium-term targets.

Details on the expansion of the Group's own retail business are given in "Group Strategy" on page 76 et seq.

Improving market position in womenswear

HUGO BOSS has a high market share particularly in premium menswear in many regions. In the womenswear market, however, it has a much lower penetration in most markets. On the basis of its product expertise and the image and credibility it has established in womenswear over the past decade, HUGO BOSS is confident that it can increase the appeal of its brands in this consumer segment and gain market share. On the path to achieving this goal, HUGO BOSS sees considerable potential in the areas of shoes and leather accessories. In combination with its apparel range, HUGO BOSS therefore offers complete outfits, which play an important role in consumers' buying decisions in the womenswear segment.

Increasing tapping of market for casual fashion

By systematically expanding its brand portfolio over the past fifteen years, HUGO BOSS has tapped more and more segments of the global premium and luxury fashion market. Starting out from its historical roots in ready-to-wear clothing for men, the Group has thus also established itself in the casual fashion and sportswear market as a provider of top quality fashion with high design standards. Combined with the growing acceptance of high-end casual fashion in a business context, this means that considerable further growth potential can be assumed. By targeting the different lifestyle-oriented consumer segments in a differentiated way as part of its multi-brand strategy, HUGO BOSS expects to see strong growth in this market segment.

Growing importance of the Internet for sales and brand image

The Internet is becoming increasingly important for the premium and luxury segment of the global fashion industry, both as a sales channel and also as a means of communication. A growing number of consumers value the advantages of shopping online in terms of the choice of products, speed and comfort. HUGO BOSS has recognized this development and significantly expanded its online distribution. Also, the improvement of the online store with regard to user friendliness and service quality contributed to significant year-on-year sales growth in 2010. The Group also uses digital media to allow consumers to experience its brands first hand. HUGO BOSS uses activities in social networks in particular to interact with its consumers and connect them with its brands. The Group sees good opportunities in the intelligent use of digital communication channels for strengthening existing consumer relationships and gaining new audiences. Furthermore, the increasing integration of online activities with the Group's stationary own retail business through multi-channel communication and new service offerings provide good growth opportunities.

Efficiency improvements in business processes

Further information on project D.R.I.V.E. can be found in "Group Strategy" on page 74 et seq.

In 2010 the Group launched a far-reaching project to improve efficiency in central business processes. The D.R.I.V.E. project particularly aims to shorten lead times. To achieve this, HUGO BOSS is striving to harmonize and standardize the development, sourcing, production and sales processes between the different brands and central functions. Together with the optimization of the collection range, this results in potential for efficiency improvements along the entire value chain.

SUBSEQUENT EVENTS AND OUTLOOK

Based on the strengths of its brands and the implementation of its growth strategy, the HUGO BOSS Group expects sales and earnings in 2011 to significantly exceed the previous year's level. The anticipated acceleration of the Group's currency-neutral sales growth compared to the prior year will be supported by increases in all regions and all distribution channels. In line with the targets set for the year 2015, above average growth is expected particularly in the Asia/Pacific region and in own retail. EBITDA before special items should increase stronger than sales as a result of the anticipated rise in sales and a higher gross margin.

SUBSEQUENT EVENTS

Acquisition of franchise stores in UK

On February 7, 2011, HUGO BOSS announced its intention to acquire 15 HUGO BOSS monobrand stores and the associated fixed assets from Moss Bros, its most important franchise partner in the UK. In addition to eight locations in London and two stores in Manchester, the acquisition also includes a location each in five other English cities. Depending on certain conditions, the transaction will become effective as of April 1, 2011. As a result of the acquisition of these locations, the number of directly operated stores and thus the share of sales of directly operated retail business in the UK was increased further. The agreed purchase price payment for the acquisition of the locations and the associated fixed assets amounted to EUR 19.5 million (GBP 16.5 million). The Group expects the integration of the locations to have a positive impact on the sales and earnings development in the period from April to December 2011.

No further reportable events

Between the end of the fiscal year 2010 and the approval for publication of this report on March 8, 2011, there were no further significant macroeconomic, socio-political, sector-related or company-specific changes that the management expects will have a material influence on the results of operations, net assets and financial position of the Company.

OUTLOOK

Overall economic outlook

The global economic development and the growth prospects of the premium and luxury segment for apparel, shoes and accessories have a major impact on the anticipated business development of the HUGO BOSS Group.

The recovery of the world economy is likely to continue at a slower pace in the coming year. For 2011 as a whole, the International Monetary Fund (IMF) expects the global economy to grow by around 4% to 5%, although the extent of economic growth will vary from region to region. The uncertain effects of fiscal austerity measures to reduce sovereign debt, as well as currency fluctuations and the expiration of monetary policy support measures, represent major risks for macroeconomic development in 2011.

Growth in the **EURO ZONE** will likely be slowed by a restrictive fiscal policy aimed at containing sovereign debt. Accordingly, domestic demand is likely to increase only moderately. Export activities in the region could decelerate due to the slowing upturn in important export markets such as the U.S. Overall, growth of around 1% to 2% is anticipated in the euro zone, with Germany expected to see stronger expansion than the region as a whole. Low unemployment and the upswing in the domestic economy should contribute to this.

In the **U.S.**, persistent high unemployment will continue to impact private consumption. Due to a moderate increase in investments and a continued expansive monetary policy, economic growth is nonetheless expected to be around the prior year level of approximately 3%. In **LATIN AMERICA**, weaker growth in the global demand for commodities, slower growth in the U.S. and a more restrictive economic policy are expected to result in a moderate slowdown of economic growth to a good 4%.

In **ASIA**, falling business climate indicators point to slowing economic expansion. However, investments in infrastructure and the increasing export orientation in the region's emerging economies should lead to growth of at least 8% for the region as a whole, excluding Japan. For the Chinese market, continued strong expansion of almost 10% is expected. However, high capital inflows due to currency turbulence in other regions of the world increase the risk of inflation and overheating of the real estate market in China. According to the forecasts, Japan will again see only weak growth.

Sector outlook

After the marked recovery of the luxury goods sector in 2010, continued growth is expected for 2011, albeit at a slower pace. Industry experts anticipate sector growth of between 3% and 5%, assuming constant exchange rates.

In the industrialized nations of Western Europe and North America, the expectation is for only moderate growth driven particularly by the ongoing expansion of directly operated retail activities. Intense competition for market shares is anticipated in these markets over the coming years, which smaller competitors in particular could fall victim to as a result of market consolidation. In Asia, the Chinese market is likely to remain a major growth driver. As a result of the constantly growing middle class with higher income, the relevant consumer segment for the luxury goods sector is expanding very fast in this market. This development is expected to particularly benefit European brands whose products are perceived by the consumers as particularly high-quality and valuable. In addition to China, other emerging economies in the region are also expected to see above-average growth. In contrast, in Japan industry experts anticipate a continued weak market development.

Currency-neutral Group sales growth to accelerate in 2011
HUGO BOSS anticipates currency-neutral sales to grow stronger in 2011 than in the previous year. Increases will exceed the growth rates of the overall economy and the luxury goods sector. Due to the weaker basis of comparison from the previous year, growth in the first half of the year is likely to be higher than in the second half.

Growth in all regions
The HUGO BOSS Group expects that all regions will contribute to the forecast sales increase for the Group as a whole in 2011, although growth in the Asia/Pacific region and America is likely to be stronger than in Europe. In the Asia/Pacific region, strong growth in China means that a double-digit increase in sales is anticipated. Sales in the royalties segment should also develop positively.

Own retail business remains engine of sales development
Own retail will be the main sales driver for the Group as a whole also in 2011. Own retail sales are expected to increase at a double-digit rate, mainly as a result of strong growth in directly operated stores and online. In addition to the positive effects of continued sales space expansion, comp store revenues are also expected to rise. The Group is benefiting here from further professionalization of its retail activities. Wholesale sales are also expected to increase. This forecast is based on the positive order development. The acquisition of franchise partners in the fiscal year 2010, particularly in China, Australia and Poland, will have a positive impact on sales development in own retail and a negative impact on wholesale revenues. For the Group as a whole, the effect is expected to be positive.

Continued sales space expansion in own retail
The HUGO BOSS Group will continue to expand its own retail activities in 2011. The number of stores is expected to increase. China will be a major focus in terms of store openings. The majority of the new stores and shops in this market will be opened as part of the joint venture with the Rainbow Group.

Gross margin to increase
The gross margin of the HUGO BOSS Group is expected to rise in 2011, primarily as a result of the increasing proportion of sales generated in own retail. The Group plans to compensate the effect from rising sourcing costs through efficiency improvements in production and sourcing as well as selective price increases.

EBITDA before special items to grow stronger than sales
HUGO BOSS expects EBITDA before special items to increase stronger than sales in 2011. This development will be due to the anticipated increase in sales and an improved gross profit margin. Operating expenses will increase mainly due to the further expansion of own retail activities and higher marketing expenses for sharpening brand differentiation. As a result of the EBITDA improvement before special items, also net income is forecasted to grow.

Strict management of net working capital

Strict management of net working capital continues to be a high priority so as to generate improvements in operating cash flow. Particular attention is given to reducing the cash conversion cycle. Potential for improvement is seen particularly in increasing the inventory turnover. The D.R.I.V.E. project is aiming to improve inventory turnover in the medium term, especially in the own retail business. Overall, the Group does not expect the net working capital increase to exceed sales growth in 2011.

Further information on project D.R.I.V.E. can be found in "Group Strategy" on page 74 et seq.

Capital expenditure to focus on own retail expansion

Capital expenditure will focus on expanding own retail activities and renovating existing stores and shops. Other investment areas include the further development of the Group's IT infrastructure and optimizations in production and logistics. The Group expects to finance the planned investments entirely from available liquidity and operating cash flow, respectively.

Continued strong cash flow development

The Group anticipates that cash flow will continue to develop strongly in 2011, primarily due to the improved profit development, strict management of net working capital, and disciplined investment activity. In addition to the dividend payment, excess funds are to be used to further reduce debt. Accordingly, the Group expects net debt at the end of the year to be lower than in the previous year. Due to the long-term financing through a syndicated loan that was concluded on favorable terms, as well as the strong internal financing capability, the Group is not planning any major financing activities in 2011.

Management intends to propose dividend of EUR 2.03 per preferred share

HUGO BOSS pursues a profit-based dividend policy under which the shareholders participate appropriately in the Group's profit development. On the basis of the significant increase in profit in the past fiscal year and the positive expectations for 2011, the Managing Board and Supervisory Board intend to propose to the Annual Shareholders' Meeting on May 10, 2011 a dividend of EUR 2.03 per preferred share (2009: EUR 0.97) and EUR 2.02 per common share (2009: EUR 0.96). The proposal corresponds to a payout ratio of 75% of consolidated net income attributable to shareholders in 2010 (2009: 64%). Provided the shareholders approve the proposal, the dividend will be paid out on the day following the Annual Shareholders' Meeting, i.e. on May 11, 2011. Based on the number of shares outstanding at the end of the year, the amount distributed will total EUR 140 million (2009: EUR 67 million).

Continued growth in 2012

Assuming continued economic growth in the Group's core markets, the management plans to achieve further increases in sales and earnings in 2012. However, in particular a significant weakening of consumer sentiment, cost inflation in the sourcing processes and currency fluctuations could jeopardize the achievement of this goal. The Group has taken countermeasures to limit the effects if these or other risks occur. Details can be found in the Risk Report.

The risk report can be found on page 126 et seq.

Group anticipates significant increase in sales and EBITDA by 2015

The HUGO BOSS Group expects to achieve a significant increase in sales and EBITDA by 2015 on the basis of successful implementation of the Group strategy. The Group strategy is based on **ORGANIC GROWTH** of the **EXISTING BRAND PORTFOLIO**. Group sales are expected to reach EUR 2.5 billion in 2015. The sales increase will mainly be driven by the **OWN RETAIL BUSINESS**, which is planned to generate approximately 50% of Group sales in 2015 as a result of sales space expansion and enhanced productivity. The relative share of sales from **WHOLESALE** will correspondingly decrease to around 50% despite an anticipated sales increase in absolute terms. The **ROYALTY BUSINESS** is expected to account for roughly the same proportion of Group sales as in 2010. The growing importance of own retail will be accompanied by a regional shift in the Group's business activities. While the share of sales of the America and Asia/Pacific regions will increase to 25% and at least 20%, respectively, Europe's share in total Group sales will decline to close to 55%.

The Group also expects to be able to increase operating income at least as strongly as sales in the same period. In 2015, EBITDA is expected to reach EUR 500 million. Key elements of further profit growth include:

Further information on the strategic orientation can be found in "Group Strategy" on page 73 et seq.

- Improvement of consumer proximity and the Group's ability to react to market changes through the shortening of lead times and development of four collections per year
- Clear differentiation between the Group brands in order to specifically address the respective target consumers
- Profitable expansion and efficiency improvements in the own retail business
- Greater internationalization of business activities using growth potential in emerging economies with above-average profitability such as China
- Continued cost discipline in central functions
- Efficiency improvements in production and sourcing
- Strict control of net working capital.

Overall statement on the expected development of the Group

The HUGO BOSS management expects significant increases in Group sales and earnings in 2011. In his opinion, the Group's long-term strategic orientation offers additional potential for profitable growth and for the achievement of the sales and earnings targets set for 2015.

Metzingen, March 8, 2011

HUGO BOSS AG
The Managing Board

CLAUS-DIETRICH LAHRS
CHRISTOPH AUHAGEN
MARK LANGER

05

CONSOLIDATED FINANCIAL STATEMENTS

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05 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

of the HUGO BOSS Group for the period from January 1 to December 31, 2010

in EUR thousand	Notes no.	2010		2009	
Net sales	(1)	**1,729,446**		**1,561,863**	
Cost of Sales[1]	(2)	(661,798)		(680,865)	
Direct selling expenses	(2)	(40,470)		(33,882)	
Gross profit			**1,027,178**		**847,116**
in % of sales			**59.4**		**54.2**
Selling and distribution expenses	(3)		(574,430)		(487,883)
Administration costs and other operating income/expenses	(4)		(188,805)		(203,807)
Operating result			**263,943**		**155,426**
Net interest income/expense			**(17,285)**		**(22,373)**
Other interest and similar income		3,283		1,680	
Interest and similar expenses		(20,568)		(24,053)	
Other financial items[1]			**2,497**		**3,595**
Financial result	(5)		**(14,788)**		**(18,778)**
Earnings before taxes			**249,155**		**136,648**
Income taxes	(6)		(59,927)		(32,659)
Net income			**189,228**		**103,989**
Attributable to:					
Equity holders of the parent company			185,895		104,003
Minority interests	(7)		3,333		(14)
Net income			**189,228**		**103,989**
Earnings per share (EUR)[2]	(8)				
Common share			2.69		1.50
Preferred share			2.70		1.51
Dividend per share (EUR)	(22)				
Common share			2.02[3]		0.96
Preferred share			2.03[3]		0.97

1 The previous year's figure has been adjusted. Please also refer to the enclosed notes to the consolidated financial statements.
2 Basic and diluted earnings per share.
3 2010: Recommendation for dividend payment.

STATEMENT OF COMPREHENSIVE INCOME

of the HUGO BOSS Group for the period from January 1 to December 31, 2010

in EUR thousand	2010	2009
Net income	**189,228**	**103,989**
Market valuation of hedges	2,670	(11,620)
Currency differences	15,263	5,285
Income and expense recognized directly in equity	**17,933**	**(6,335)**
Total comprehensive income	**207,161**	**97,654**
Attributable to:		
Equity holders of parent company	204,403	97,668
Minority interests	2,758	(14)
Total comprehensive income	**207,161**	**97,654**

CONSOLIDATED BALANCE SHEET

of the HUGO BOSS Group as of December 31, 2010

ASSETS

in EUR thousand	Notes no.	2010		2009	
Intangible assets	(10)	126,937		101,387	
Property, plant and equipment	(11)	264,415		270,440	
Deferred tax assets	(6)	48,970		45,085	
Non-current financial assets	(13) (28)	20,843		10,421	
Non-current tax receivables		3,141		3,325	
Other non-current assets	(13)	2,878		4,364	
Non-current assets			**467,184**		**435,022**
Inventories	(14)	377,330		305,978	
Trade receivables	(15)	133,365		140,074	
Current tax receivables	(6)	8,847		14,583	
Current financial assets	(13) (28)	10,621		5,725	
Other current assets	(13)	61,921		49,921	
Cash and cash equivalents	(16)	294,884		114,082	
Assets classified as held for sale	(12)	1,290		0	
Current assets			**888,258**		**630,363**
Total assets			**1,355,442**		**1,065,385**

EQUITY AND LIABILITIES

in EUR thousand	Notes no.	2010		2009	
Subscribed capital	(17)	70,400		70,400	
Own shares	(18)	(42,363)		(42,363)	
Capital reserve	(19)	399		399	
Retained earnings [1]	(20)	161,194		123,783	
Accumulated other comprehensive income	(21)	(31,720)		(50,228)	
Profit attributable to equity holders of the parent company		185,895		104,003	
Equity attributable to equity holders of the parent company			**343,805**		**205,994**
Minority interests	(7)		17,416		(519)
Group equity			**361,221**		**205,475**
Non-current provisions	(23) (24)	39,047		32,568	
Non-current financial liabilities [1]	(25) (28)	514,122		494,218	
Deferred tax liabilities	(6)	24,878		16,449	
Other non-current liabilities [1]	(26)	27,107		24,437	
Non-current liabilities			**605,154**		**567,672**
Current provisions	(23)	86,807		55,763	
Current financial liabilities [1]	(25) (28)	18,814		28,214	
Income tax payables	(6)	37,615		16,709	
Trade payables	(27)	187,991		150,454	
Other current liabilities	(26)	57,840		41,098	
Current liabilities			**389,067**		**292,238**
Total equity and liabilities			**1,355,442**		**1,065,385**

1 The previous year's figure has been adjusted. Please also refer to the enclosed notes to the consolidated financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

of the HUGO BOSS Group for the period from January 1 to December 31, 2010

				Retained Earnings	
in EUR thousand	Subscribed Capital	Own Shares	Capital Reserve	Legal Reserve	Other Reserves
Notes No.	(17)	(18)	(19)	(20)	(20)
January 1, 2009	**70,400**	**(42,363)**	**399**	**6,641**	**99,912** [1]
Total comprehensive income					
Changes in scope of consolidation					
Allocated to retained earnings					112,119
Dividend payment					(94,889)
Share repurchase					
December 31, 2009	**70,400**	**(42,363)**	**399**	**6,641**	**117,142**
Total comprehensive income					
Changes in scope of consolidation					
Allocated to retained earnings					104,003
Dividend payment					(66,592)
Share repurchase					
December 31, 2010	**70,400**	**(42,363)**	**399**	**6,641**	**154,553**

1 The previous year's figure has been adjusted. Please also refer to the enclosed notes to the consolidated financial statements.

	Accumulated other comprehensive income					
	Difference arising from currency translation	**Market valuation of hedges**	**Profit attributable to equity holders of the parent**	**Equity attributable to equity holders of the parent**	**Minority Interests**	**Group Equity**
	(21)	(21)			(7)	
	(35,976)	**(7,917)**	**112,119**	**203,215**	**(505)**	**202,710**
	5,285	(11,620)	104,003	97,668	(14)	97,654
			(112,119)			
				(94,889)		(94,889)
	(30,691)	**(19,537)**	**104,003**	**205,994**	**(519)**	**205,475**
	15,838	2,670	185,895	204,403	2,758	207,161
					15,177	15,177
			(104,003)			
				(66,592)		(66,592)
	(14,853)	**(16,867)**	**185,895**	**343,805**	**17,416**	**361,221**

CONSOLIDATED STATEMENT OF CASH FLOWS

of the HUGO BOSS Group for the period from January 1 to December 31, 2010

in EUR thousand	Notes No.	2010	2009
	(32)		
Net income		189,228	103,989
Depreciation/amortization	(10) (11) (12)	70,920	69,135
Unrealized net foreign exchange gain/loss[1]		(7,908)	(5,416)
Other non-cash transactions[1]		2,065	1,617
Income tax expense/refund	(6)	59,927	32,659
Interest income and expenses	(5)	17,285	22,373
Change in inventories[1]		(39,661)	81,781
Changes in receivables and other assets[1]		(870)	75,789
Changes in trade payables and other liabilities[1]		31,291	26,610
Result from disposal of non-current assets		1,590	4,054
Change in provisions for pensions	(24)	6,886	(255)
Change in other provisions[1]		22,778	1,189
Income taxes paid		(27,690)	(47,426)
Cash flow from operations		**325,841**	**366,099**
Interest paid[1]	(5)	(20,398)	(24,053)
Interest received	(5)	2,891	1,680
Cash flow from operating activities		**308,334**	**343,726**
Investments in PPE[2] and intangible assets	(10) (11)	(55,584)	(48,337)
Payment for changes in scope of consolidation		(7,206)	0
Cash receipts from sales of PPE[2] and intangible assets		766	4,138
Cash flow from investing activities		**(62,024)**	**(44,199)**
Dividend payment	(22)	(66,592)	(94,889)
Change in current financial liabilities[1]		(597)	(5,855)
Repayment of non-current financial liabilities[1]		(1,047)	(109,981)
Cash flow from financing activities		**(68,236)**	**(210,725)**
Exchange rate-related changes in cash and cash equivalents		2,728	668
Change in cash and cash equivalents		**180,802**	**89,470**
Cash and cash equivalents at the beginning of the period		114,082	24,612
Cash and cash equivalents at the end of the period	(16)	**294,884**	**114,082**

1 The previous year's figure has been adjusted. Please also refer to the enclosed notes to the consolidated financial statements.
2 Property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2010

GENERAL INFORMATION

The consolidated financial statements and Group management report of HUGO BOSS AG, Metzingen, were authorized for issue to the Supervisory Board by the Managing Board on March 8, 2011.

The Company is registered as HUGO BOSS AG in the Commercial Register of the Stuttgart local court under HRB 360610.

The Company's registered offices are in Metzingen, Germany. The address is HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen.

The preparation of the consolidated financial statements requires – in the case of certain items – that assumptions are made that may impact the recognition of such items in the consolidated balance sheet and the consolidated income statement as well as in the disclosure of other financial obligations and contingent liabilities.

To improve clarity of presentation, various items in the consolidated balance sheet and in the consolidated income statement have been combined. These items are listed separately and discussed in the notes to the consolidated financial statements. The presentation of the prior-period figures has been adjusted to match that of the figures for the reporting period. All adjustments are explained in more detail under "Changes in presentation".

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

The Group generally classifies assets and liabilities as current when they are expected to be received or settled within 12 months of the reporting date.

BASIS OF PRESENTATION

The consolidated financial statements of HUGO BOSS AG for the year ending December 31, 2010 were prepared in accordance with the accounting principles of the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Section 315a Paragraph 1 of the German Commercial Code (HGB). All International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as well as interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to the fiscal year 2010 have been taken into account.

APPLICATION OF NEW IFRS AND AMENDED IAS

The following new and revised IFRS standards and interpretations adopted by the EU were applied by the Group in the fiscal year. The application of these revised standards and interpretations did not materially affect the Group's financial position or financial performance. However, some additional disclosures were required.

Amendment to IFRS 3 Business Combinations as well as modifications to IAS 27 Consolidated and Separate Financial Statements in accordance with IFRS
Key changes to the revised/modified standards are the application of the full goodwill method, the recognition of acquisition costs in profit or loss, the revaluation of existing investments in profit and loss after control is obtained, the revaluation of the remaining investments in profit and loss after control is lost, the recognition in equity of changes in the investment in a subsidiary without loss of control, and the unlimited allocation of losses to minority shareholders.

Amendment to IFRS 2 Cash-settled share-based payment transactions
The IASB has published amendments to IFRS 2 that detail the accounting of group cash-settled share-based payment transactions. It specifies more precisely how a group's subsidiaries are to present certain share-based payment agreements in their own annual accounts. Under these agreements, the subsidiary receives goods or services from employees or suppliers, but the parent company or other group in the company is required to pay these employees or suppliers. The published amendments specify the applicability of IFRS 2 and the interaction between IFRS 2 and other standards. The amendments to IFRS 2 incorporate guidelines in the standards that were formerly contained in IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions". The IASB has therefore withdrawn IFRIC 8 and IFRIC 11.

IAS 32 Financial Instruments: Presentation
The amendments govern the accounts of the issuers of subscription rights, options and warrants for the acquisition of a fixed number of equity instruments that are denominated in another issuer currency. To date, such cases have been accounted as derivative liabilities. Subscription rights that are issued at a proportion of a set currency amount to the existing shareholders in a company are to be classified as equity in the future. The currency of the strike price is irrelevant.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
This interpretation concerns the hedge accounting of net investments in a foreign operation.

IMPROVEMENTS TO IFRS
As part of the continuous project to make annual improvements to the IFRSs, in April 2009 the IASB again issued amendments to a number of existing standards. The amendments were adopted by the European Parliament on March 23, 2010 and are effective for fiscal years beginning on or after January 1, 2010. The individual amendments are described in more detail below.

IFRS 8 Operating Segments
In segment reporting, the amounts of segment assets and segment liabilities need to be stated only if they form a regular part of reporting to the company's chief operating decision maker.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
In this amendment, the IASB dealt with the question of whether further disclosures under IFRSs are required for "non-current assets held for sale (or disposal groups)" and discontinued operations in addition to the disclosures required by IFRS 5 if the scope of these IFRSs does not already explicitly exclude such assets. To clarify this issue, a new paragraph was added.

IFRS 2 Share-based Payment
The IASB clarified that in addition to business combinations that come under the scope of IFRS 3, the establishment of joint ventures or transactions under joint control also do not come under the scope of IFRS 2.

IAS 39 Financial Instruments: Recognition and Measurement

The clarifications made as part of the annual improvements project relate to the treatment of loan prepayment penalties as closely related embedded derivatives, the exemption of derivatives from the scope of IAS 39, and cash flow hedge accounting.

IAS 38 Intangible Assets

In IAS 38.36, the IASB has now clarified that an intangible asset acquired in a business combination can be separated into an identifiable asset or liability only in connection with an associated contract. In this case, the intangible asset is separated from the goodwill and must be recognized in connection with the related asset or liability.

IAS 36 Impairment of Assets

As a result of the amendments to IFRS 8 Operating Segments, IAS 36 Impairment of Assets was also amended. Goodwill resulting from a business combination must be allocated to a cash generating unit or a group of cash generating units. The IASB has now clarified that the allocation is to be applied to the lowest level in line with the definition in IFRS 8.5. A bundling of individual operating segments into a segment subject to reporting requirements as possibly permitted under IFRS 8.12 would therefore not be a permissible level at which goodwill could be tested for impairment.

IAS 17 Leases

Although accounting for leases is to be fundamentally revised in the medium term, the IASB has resolved to amend the existing regulations. These amendments cover the classification of property relating to leases, with particular attention being given to the indefinite useful economic life of the land.

IAS 7 Statement of Cash Flows

In accordance with IAS 7, the statement of cash flows must contain cash flows from the period classified according to operating activities, investing activities and financing activities. The IASB has now clarified in IAS 7.16 that only those expenses that lead to an asset recognized in the balance sheet may be included in the cash flow for investing activities.

IAS 1 Presentation of the Financial Statements

It has been incorporated into IAS 1.69 that the classification of a liability as current or non-current is not influenced by existing conditions under which this liability can be settled by issuing equity instruments on the basis of an option of the counterparty.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

Under the previous regulations in IFRIC 16, a hedging instrument could not be held by the foreign operation being hedged itself. This restriction was removed by the amendment to IFRIC 16.

IFRIC 12 Service Concession Arrangements

The interpretation governs the accounting treatment of obligations assumed and contractual rights received in the financial statements of the service concession operator.

IFRIC 9 Reassessment of Embedded Derivatives

The IASB has now clarified that, in addition to contracts acquired as part of a business combination, contracts acquired as part of business combinations of entities under common control or in the formation of a joint venture as defined in IAS 31 are also excluded from the scope of IFRIC 9.

THE FOLLOWING FINANCIAL REPORTING STANDARDS, INTERPRETATIONS AND AMENDMENTS HAVE BEEN ISSUED, BUT ARE NOT REQUIRED TO BE APPLIED FOR FISCAL YEAR 2010:

IFRS 9 Financial Instruments

The publication of IFRS 9 on November 12, 2009 marked the conclusion of the first part of a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement with a new standard. Proposals for impairment methodology for financial instruments had been published in the second phase of the project in early November. Proposals for hedge accounting, the third phase, are still being developed.

IFRS 9 introduces new rules for the classification and valuation of financial assets. These rules must be applied from January 1, 2013.

Amendment to IFRS 7 Financial Instruments: Disclosures

Effective January 1, 2009, the information on the establishment of fair value specified that a three-step fair value hierarchy was to be introduced. The amendments stipulate additional disclosures for liquidity risk, by means of fair value measurement on the basis of a three-step hierarchy. The amendments are to be applied for the first time to fiscal years beginning on or after January 1, 2013.

IAS 24 Related Party Disclosures

As a result of the amendment to IAS 24, detailed information now only needs to be given for significant individual transactions. Furthermore, quantitative indicators are also to be given on the effects of transactions that are not significant individually, but are so collectively.

In addition, the amendments to IAS 24 clarify the definition of a related party. The amendments are to be applied for the first time to fiscal years beginning on or after January 1, 2011.

Amendment to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This amendment applies to IFRIC 14, which is itself an interpretation of IAS 19 Employee Benefits. The amendment applies under the limited circumstances whereby a company is subject to minimum funding requirements and makes a prepayment of the contributions which satisfies these requirements. Under the amendment, companies are now permitted to recognize the gain from such a prepayment as an asset. The amendments are to be applied for the first time to fiscal years beginning on or after January 1, 2011.

The new financial reporting standards have not been applied to the consolidated financial statements for the fiscal year 2010. Their application is not expected to have a significant effect on the financial position, financial performance, or cash flows of the HUGO BOSS Group.

BUSINESS COMBINATION

With effective date July 1, 2010, HUGO BOSS founded a joint venture with the Rainbow Group, a longtime franchisee in P.R. China. HUGO BOSS International B.V., Amsterdam, Netherlands, acquired 60% of the shares and voting rights in a newly founded holding company, HUGO BOSS Lotus Hong Kong Ltd., Hong Kong, holding all shares of Lotus Concept Trading (Macau) Co., Ltd., Macau and Shenzhen Lotus Trading Co., Ltd., Shenzhen, China. The purchase price for the acquisition of the shares amounts to HKD 217.5 million (EUR 22.8 million), to be paid in 3 installments.

The first installment of HKD 96 million (EUR 10.0 million) was already paid in the third quarter of 2010. The two remaining installments each amount to HKD 60.75 million and are due on July 1, 2011 and July 1, 2012 respectively.

With the conclusion of the purchase agreement dated July 1, 2010, HUGO BOSS International B.V., Amsterdam, Netherlands, obtained control of HUGO BOSS Lotus Hong Kong Ltd., Hong Kong, and thus of the subsidiaries in Macau and China.

When a company obtains control of another company, this constitutes a business combination as defined in IFRS 3. In accordance with IFRS 3, business combinations are to be recognized using the acquisition method. The acquisition method involves four steps:

- Identifying the acquirer
- Determining the acquisition date
- Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree
- Recognizing and measuring the goodwill

The acquirer of the shares is HUGO BOSS International B.V., Amsterdam, Netherlands. The first consolidation of this company took place at the acquisition date, with effect from July 1, 2010.

The assets and liabilities of the companies acquired were measured at their respective fair value and are based on the applicable IFRS standards in each case and the uniform Group-wide guidelines of the HUGO BOSS Group.

SHENZHEN LOTUS TRADING CO., LTD.

in EUR thousand	Carrying amount July 1, 2010	Purchase Price Allocation	Fair Value July 1, 2010
ASSETS			
Intangible assets	4.3	15,023.6	15,027.9
thereof business licences		10,074.9	
thereof franchise agreements		4,948.7	
Property, plant and equipment	2,062.1	522.5	2,584.6
thereof leasehold improvements		522.5	
Non-current financial assets			
Deferred tax assets	985.3		985.3
Non-current assets	**3,051.7**	**15,546.1**	**18,597.8**
Inventories	8,276.6		8,276.6
Trade receivables	4,946.4		4,946.4
Current financial assets	543.8		543.8
Other current assets	2,043.3		2,043.3
Cash and cash equivalents	1,755.3		1,755.3
Current assets	**17,565.4**		**17,565.4**
Total assets	**20,617.1**	**15,546.1**	**36,163.2**
EQUITY AND LIABILITIES			
Deferred tax liabilities	0.0	3,886.5	3,886.5
Non-current liabilities	**0.0**	**3,886.5**	**3,886.5**
Current provisions	4.4		4.4
Income tax payables	1,061.0		1,061.0
Trade payables	2,535.3		2,535.3
Other current liabilities	5,302.6		5,302.6
Current liabilities	**8,903.3**		**8,903.3**
Equity	**11,713.8**	**11,659.6**	**23,373.3**
Total equity and liabilities	**20,617.1**	**15,546.1**	**36,163.2**

LOTUS CONCEPT TRADING (MACAU) CO., LTD.

in EUR thousand	Carrying amount July 1, 2010	Purchase Price Allocation	Fair Value July 1, 2010
ASSETS			
Intangible assets	0.0	1,357.3	1,357.3
thereof business licences			
thereof franchise agreements		1,357.3	1,357.3
Property, plant and equipment	1,664.3		1,664.3
thereof leasehold improvements			
Non-current financial assets			
Deferred tax assets			
Non-current assets	**1,664.3**	**1,357.3**	**3,021.6**
Inventories	1,544.0		1,544.0
Trade receivables	13.0		13.0
Current financial assets	295.3		295.3
Other current assets	22.7		22.7
Cash and cash equivalents	1,082.4		1,082.4
Current assets	**2,957.4**		**2,957.4**
Total assets	**4,621.7**	**1,357.3**	**5,979.0**
EQUITY AND LIABILITIES			
Deferred tax liabilities	0.0	162.9	162.9
Non-current liabilities	**0.0**	**162.9**	**162.9**
Current provisions			
Income tax payables	780.9		780.9
Trade payables	796.9		796.9
Other current liabilities	609.2		609.2
Current liabilities	**2,187.0**		**2,187.0**
Equity	**2,434.7**	**1,194.4**	**3,629.1**
Total equity and liabilities	**4,621.7**	**1,357.3**	**5,979.0**

HUGO BOSS LOTUS HONG KONG LTD.

in EUR thousand	Carrying amount July 1, 2010	Purchase Price Allocation	Fair Value July 1, 2010
ASSETS			
Intangible assets			
thereof business licences			
thereof franchise agreements			
Property, plant and equipment			
thereof leasehold improvements			
Non-current financial assets	37,938.6		37,938.6
Deferred tax assets			
Non-current assets	**37,938.6**		**37,938.6**
Inventories			
Trade receivables			
Current financial assets			
Other current assets	3.6		3.6
Cash and cash equivalents			
Current assets	**3.6**		**3.6**
Total assets	**37,942.2**		**37,942.2**
EQUITY AND LIABILITIES			
Deferred tax liabilities			
Non-current liabilities			
Current provisions			
Income tax payables			
Trade payables			
Other current liabilities			
Current liabilities			
Equity	**37,942.2**		**37,942.2**
Total equity and liabilities	**37,942.2**		**37,942.2**

As part of the purchase price allocation, three groups of assets were identified for Shenzhen Lotus Trading Co., Ltd., Shenzhen, China. One asset was identified for Lotus Concept Trading (Macau) Co., Ltd., Macau. These assets fulfill the criteria of IFRS 3 and of IAS 16 and IAS 38.

The individual assets were measured using the cost approach. This approach generally comprises two methods, the reproduction method and the replacement method. The replacement method was used for all assets to be measured. To measure the asset, the costs which would be incurred to produce or purchase an asset providing the same benefits are used. The single steps in the measurement are described in detail below:

1) Business licenses
In China (Shenzhen Lotus Trading Co., Ltd., Shenzhen, China), a business license is a mandatory requirement for running directly operated retail stores. A total of seven business licenses were transferred as part of the acquisition. In accordance with IFRS 3.B32, a license meets the conditions of an intangible asset under IAS 38 and can therefore be recognized as a separate asset.
The business licenses were measured in three steps. Firstly, the costs of obtaining the business license were calculated. The opportunity costs for this period were then calculated, as well as the opportunity costs in the warm-up phase.

2) Franchise agreements (reacquired rights)
The intangible assets acquired as part of a business combination also include reacquired rights. These are rights which were obtained from the acquirer by the company acquired before the business combination, allowing it the opportunity to use the acquirer's assets. Because there already was a business relationship between HUGO BOSS and the Rainbow Group before the joint venture on the basis of franchise agreements, these agreements must now be recognized as an intangible asset in the purchase price allocation. The reacquired franchise agreements were concluded at standard market conditions. The measurement was made in the same way as the measurement for the business license.
A total of 28 franchise agreements were measured and recognized for Shenzhen Lotus Trading Co., Ltd., Shenzhen, China, and six for Lotus Concept Trading (Macau) Co., Ltd., Macau.

3) Leasehold improvements
Before the sale of the shares to HUGO BOSS, the Rainbow Group had already acquired retail stores from third-party franchise partners. In the context of these acquisitions, the leasehold improvements carried out by the franchise partners were not recognized in the financial statement. In total there are five shops for which these leasehold improvements were recognized in the purchase price allocation. As a result, the fixed assets of Shenzhen Lotus Trading Co., Ltd., Shenzhen, China increase by EUR 0.5 million.

The tax amortization benefit, which results from the tax amortization of the capitalized intangible assets, was calculated and taken into account for all intangible assets identified. It amounts to EUR 2.9 million across all groups. Further tax use of goodwill is not expected.

Following the purchase price allocation, there is remaining goodwill of EUR 10.2 million. This arises as a positive difference between the identifiable assets acquired and the liabilities assumed from the company acquired. In comparison to the published nine-month report for 2010, there was a change in the separate financial statements of Shenzhen Lotus Trading Co., Ltd., Shenzhen, China, in the liabilities and other retained earnings items. The increase in other retained earnings took place retroactively as of July 1, 2010 and therefore had an impact on goodwill at the date of first consolidation.
This change results from the Rainbow Group's partial waiver of the dividend from fiscal year 2009 which is to be paid to the Rainbow Group under the terms of the purchase agreement. As of the reporting date of December 31, 2010, there is also no final calculation, which is why goodwill was prepared under the provisional calculation of the dividend. As of December 31, 2010, dividends for fiscal year 2009 were waived in the amount of EUR 4.1 million (CNY 33.8 million). In each case, the resulting goodwill is allocated to the companies in which it arose and amortized in euro.
In accordance with IAS 36, goodwill must undergo an annual impairment test, meaning that in line with the prescriptions of the International Financial Reporting Standards it is not subject to scheduled amortization. Because the joint venture companies were not included in the consolidated financial statements of the HUGO BOSS Group until July 1, 2010, no impairment test was performed for fiscal year 2010.

OVERVIEW OF GOODWILL

(in thousand)	in EUR	in local currencies
Non-current financial assets		
HUGO BOSS International B.V. in HUGO BOSS Lotus Hong Kong Limited (60%)[1]	22,053.0	217,500.0 HKD
HUGO BOSS Lotus Hong Kong Limited in Shenzhen Lotus Trading Co., Ltd. (100%)	28,486.6	272,186.7 HKD
HUGO BOSS Lotus Hong Kong Limited in Lotus Concept Trading (Macau) Co., Ltd. (100%)	9,452.0	90,313.3 HKD
	59,991.6	
Equity (before Purchase Price Allocation)		
HUGO BOSS Lotus Hong Kong Limited	37,942.2	362,533.8 HKD
Shenzhen Lotus Trading Co., Ltd.	11,713.8	97,476.0 CNY
Lotus Concept Trading (Macau) Co., Ltd.	2,434.7	23,986.1 MOP
	52,090.7	
Purchase Price Allocation		
HUGO BOSS Lotus Hong Kong Limited	0.0	0.0 HKD
Shenzhen Lotus Trading Co., Ltd.	11,659.6	97,025.0 CNY
Lotus Concept Trading (Macau) Co., Ltd.	1,194.4	11,767.0 MOP
	12,853.9	
Goodwill		
HUGO BOSS Lotus Hong Kong Limited	(712.3)	
Shenzhen Lotus Trading Co., Ltd.	5,113.3	
Lotus Concept Trading (Macau) Co., Ltd.	5,823.0	
	10,224.0	
Minorities		
Minorities (40%)	15,176.9	

1 Minorities arising on HUGO BOSS Lotus Hong Kong Limited level.

Minority interests are measured in line with their stake at the fair value of the identifiable assets, liabilities and contingent liabilities.

In total, acquisition-related costs arose in the amount of EUR 0.4 million. These were accounted for as expenses in the consolidated income statement in the period which the costs were incurred.

The transaction also had effects at Group level on the cash and cash equivalents item, which decreased by EUR 7.2 million as a result of the acquisition. The sum is made up of the acquired cash and cash equivalents and the first purchase price payment of HKD 96 million (EUR 10.0 million), which has already been paid.

If the business combination had already taken place as of January 1, 2010, this would have had the following effect on 2010 as a whole:
Group sales: January 1, 2010 – June 30, 2010: + EUR 20.4 million
Net income: January 1, 2010 – June 30, 2010: + EUR 6.8 million

SCOPE OF CONSOLIDATION

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

BIL Leasing Verwaltungs-GmbH & Co. 869 KG, Pullach, Germany[1]
GRAMOLERA Grundstücks-Vermietungsgesellschaft Objekt Ticino mbH, Metzingen, Germany[2]
HUGO BOSS (Schweiz) AG, Zug, Switzerland
HUGO BOSS Australia Pty. Ltd., Preston, Australia
HUGO BOSS Belgium BVBA, Diegem, Belgium
HUGO BOSS Belgium Retail BVBA, Diegem, Belgium
HUGO BOSS Benelux B.V. CIA, S.C., Madrid, Spain
HUGO BOSS Benelux B.V., Amsterdam, Netherlands
HUGO BOSS Benelux Retail B.V., Amsterdam, Netherlands
HUGO BOSS Beteiligungsgesellschaft mbH, Metzingen, Germany[2]
HUGO BOSS Canada, Inc., Toronto, Canada
HUGO BOSS China Retail Co. Ltd., Shanghai, China
HUGO BOSS Cleveland, Inc., Wilmington, DE, U.S.A.
HUGO BOSS Dienstleistungs GmbH, Metzingen, Germany[2]
HUGO BOSS do Brasil Ltda., São Paulo, Brazil
HUGO BOSS Fashions, Inc., Wilmington, DE, U.S.A.
HUGO BOSS France SAS, Paris, France
HUGO BOSS Guangdong Trading Co. Ltd., Guangzhou, China
HUGO BOSS Holding Netherlands B.V., Amsterdam, Netherlands
HUGO BOSS Holdings Pty. Ltd., Preston, Australia
HUGO BOSS Holding Sourcing S.A., Coldrerio, Switzerland
HUGO BOSS Hong Kong Ltd., Hong Kong
HUGO BOSS International B.V., Amsterdam, Netherlands
HUGO BOSS International Markets AG, Zug, Switzerland
HUGO BOSS Internationale Beteiligungs-GmbH, Metzingen, Germany[2]
HUGO BOSS Ireland Ltd., Dublin, Ireland
HUGO BOSS Italia S.p.A., Milan, Italy
HUGO BOSS Japan K.K., Tokyo, Japan
HUGO BOSS Licensing, Inc., Wilmington, DE, U.S.A.
HUGO BOSS Lotus Hong Kong Limited, Hong Kong[3]
HUGO BOSS Magazacilik Ltd. Sti., Izmir, Turkey
HUGO BOSS Merchandise Management GmbH, Metzingen, Germany
HUGO BOSS Mexico Management Services S.A. de C.V., Mexico City, Mexico
HUGO BOSS Mexico S.A. de C.V., Mexico City, Mexico
HUGO BOSS Nordic ApS, Copenhagen, Denmark
HUGO BOSS Portugal & Companhia, Lisbon, Portugal
HUGO BOSS Retail, Inc., Wilmington, DE, U.S.A.
HUGO BOSS Scandinavia AB, Stockholm, Sweden
HUGO BOSS Shoes & Accessories Italia S.p.A., Morrovalle, Italy
HUGO BOSS shoes & accessories, Inc., Wilmington, DE, U.S.A.
HUGO BOSS Switzerland Retail AG, Zurich, Switzerland
HUGO BOSS Textile Industry Ltd., Izmir, Turkey

HUGO BOSS Ticino S.A., Coldrerio, Switzerland
HUGO BOSS Trade Mark Management GmbH & Co. KG, Metzingen, Germany[2]
HUGO BOSS Trade Mark Management Verwaltungs-GmbH, Metzingen, Germany[2]
HUGO BOSS UK Ltd., London, Great Britain
HUGO BOSS USA, Inc., Wilmington, DE, U.S.A.
HUGO BOSS Vermögensverwaltungs GmbH & Co. KG, Metzingen, Germany[2]
Lotus Concept Trading (Macau) Co., Ltd., Macau[3]
MSC Poland Sp.z.o.o., Radom, Poland
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstraße KG, Grünwald, Germany[1]
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG, Grünwald, Germany[1]
Shenzhen Lotus Trading Co. Ltd., Shenzhen, China[3]
The Joseph & Feiss Company, Wilmington, DE, U.S.A.

1 Investments with an equity share of 94%.
2 Subsidiaries that make use of the exemption pursuant to Section 264 Paragraph 3 or Section 264b of the German Commercial Code (HGB).
3 Investments with a direct and indirect equity share of 60%.

The following property companies headquartered in Grünwald, Germany were founded in fiscal year 2008:
GRETANA Vermietungsgesellschaft mbH & Co. Objekt Lagerimmobilie KG
GRETANA Vermietungsgesellschaft mbH & Co. Objekt Lagerlogistik KG

These companies are special purpose entities that are expected to manufacture the planned logistics property including movables and then rent them to HUGO BOSS AG in an operating lease. Because of changes within the HUGO BOSS Group, the leasing agreements were not concluded in fiscal year 2009 or 2010. HUGO BOSS AG has committed to reimbursing the property companies all expenses incurred in the event of the leasing agreement not being signed. HUGO BOSS AG paid these reimbursements in the past fiscal year. It is again not necessary to include these companies in the scope of consolidation for fiscal year 2010.

The full list of shareholdings is disclosed as part of the notes to the financial statements (see note (40)).

CHANGES IN THE SCOPE OF CONSOLIDATION

In the reporting period from January 1 to December 31, 2010, the number of consolidated companies increased to 55. The following changes were made to the scope of consolidation in fiscal year 2010:

With effective date July 1, 2010, three subsidiaries which were acquired as part of the joint venture were added to the scope of consolidation. HUGO BOSS International B.V., Amsterdam, Netherlands, holds 60% in HUGO BOSS Lotus Hong Kong Ltd., Hong Kong, which holds 100% in the operative subsidiaries Lotus Concept Trading (Macau) Co., Ltd., Macau and Shenzhen Lotus Trading Co., Ltd., Shenzhen, China.

Furthermore, a new subsidiary in Ireland was founded, HUGO BOSS Ireland Limited, Dublin, Ireland, which is a 100% subsidiary of HUGO BOSS International B.V., Amsterdam, Netherlands.

In Italy, the previously fully consolidated company HUGO BOSS S.p.A, Como, Italy was merged with HUGO BOSS Italia S.p.A. Milan, Italy, which was also fully consolidated, by means of a merger agreement dated October 1, 2010 as part of the optimization of the corporate structure.

An overview of the number of companies included in the consolidated financial statements for fiscal year 2010 is shown below:

NUMBER OF FULLY CONSOLIDATED COMPANIES

	2010	2009
January 1	**52**	**52**
Newly founded/consolidated companies	4	1
Merged companies/disposal	(1)	(1)
December 31	**55**	**52**

INFORMATION CONCERNING THE MAJORITY SHAREHOLDER

Red & Black Holding GmbH, Oberursel (Taunus), Germany, holds the majority of voting rights in HUGO BOSS AG. The consolidated financial statements of HUGO BOSS AG are included in the consolidated financial statements of Red & Black Holding GmbH, Oberursel (Taunus), Germany as the largest scope of consolidation.

PRINCIPLES OF CONSOLIDATION

Subsidiaries are fully consolidated starting from the acquisition date, i.e. from the date when the Group gains control of them. Consolidation ends when the parent company no longer has control of them. The financial statements of the subsidiaries are prepared using uniform group-wide accounting principles.
The effects of intercompany transactions have been eliminated. Receivables and liabilities between consolidated companies have been offset; intercompany gains and losses on non-current assets and inventories eliminated, and intercompany income offset against the corresponding expenses. Deferred taxes are recognized as required by IAS 12 to account for any temporary differences resulting from the consolidation.

BUSINESS COMBINATIONS

All business combinations are accounted for using the purchase method. The acquisition cost of a business acquisition is calculated as the sum of the consideration transferred, measured at fair value as of the acquisition date, and the interests without a controlling influence on the company acquired. Identifiable assets acquired and liabilities assumed in a business combination (including contingent liabilities) are measured initially at their fair values at the acquisition date. Minority interests are measured in line with their stake at the fair value of the identifiable assets, liabilities and contingent liabilities. Costs incurred in the business combination are recognized as an expense.

GOODWILL

Goodwill resulting from a business combination represents the difference between the consideration transferred plus the amount of the shares without a controlling influence, and the assets acquired and liabilities assumed. If the consideration is lower than the fair value of the acquired subsidiary's net assets, the difference is recognized in income immediately.
After initial recognition, goodwill is recognized at cost less cumulated impairment. Reported goodwill undergoes an impairment test once a year and if there are indications of potential impairment.

CURRENCY TRANSLATION

The Group's reporting currency is the functional currency of the parent company, HUGO BOSS AG. The functional currency of the subsidiaries included in the consolidated financial statements is generally the respective local currency. In the case of units which process a significant portion of their sales and purchasing activities and financing in a currency other than the respective local currency, the functional currency is the currency of the primary business environment. Accordingly, the functional currency of HUGO BOSS Textile Industry Ltd., Turkey and HUGO BOSS International Markets AG, Switzerland is the euro, since the majority of business transactions of these companies are negotiated in euro.

Foreign currency transactions and net foreign currency balances

In the separate financial statements, transactions in foreign currencies are recognized at the time of the transaction at the currently valid exchange rate. Monetary items (cash and cash equivalents, receivables and liabilities) in a foreign currency are translated into the functional currency at each reporting date using the conversion rate on the reporting date.
The resulting foreign currency gains and losses are recognized immediately in profit or loss as other financial items.

Translation of the separate financial statements

All of the Group companies are economically independent units. The annual financial statements of the foreign Group companies with a functional currency other than the euro are translated into the Group currency (euro) on the basis of the respective functional currency. The currency translation is performed in line with the modified closing rate method in accordance with IAS 21, under which assets and liabilities are translated at the exchange rate on the balance sheet date, while items in the income statement are translated at the average rates for the reporting period. The difference between the translation of the income statement at average rates and of the balance sheet at closing rates is reported under accumulated other comprehensive income in equity. The foreign exchange difference resulting from the translation of equity at historical rates was also taken directly to accumulated other comprehensive income. Exchange differences recognized in accumulated other comprehensive income are reclassified to the income statement if the Group company in question is sold.

The exchange rates of the most relevant currencies changed as follows in relation to the euro:

	Currency	Average Rate		Closing Rate	
Country	1 EUR =	2010	2009	2010	2009
Australia	AUD	1.4454	1.7766	1.3136	1.6008
Brazil	BRL	2.3358	2.7721	2.2177	2.5113
China	CNY	8.9797	9.5143	8.8220	9.8350
Denmark	DKK	7.4472	7.4463	7.4535	7.4418
Great Britain	GBP	0.8583	0.8911	0.8608	0.8881
Hong Kong	HKD	10.3065	10.7937	10.3856	11.1709
Japan	JPY	116.4832	130.1831	108.6500	133.1600
Canada	CAD	1.3671	1.5858	1.3322	1.5128
Macau[1]	MOP	10.6176	n/a	10.5341	n/a
Mexico	MXN	16.7641	18.7858	16.5475	18.7908
Norway	NOK	8.0105	8.7324	7.8000	8.3000
Sweden	SEK	9.5523	10.6276	8.9655	10.2520
Switzerland	CHF	1.3826	1.5099	1.2504	1.4836
USA	USD	1.3266	1.3925	1.3362	1.4406

1 Since July 1, 2010: Lotus Concept Trading (Macau) Co., Ltd.

ACCOUNTING POLICIES

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

RECOGNITION OF INCOME AND EXPENSES

Income is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of the income can be measured reliably. Income is measured at the fair value of the consideration received, and is reported after deduction of trade discounts and rebates and excluding value added tax. In addition, the following income recognition criteria must be met.

Sale of goods

Proceeds from the sale of goods are recognized after significant risks and rewards of ownership of the goods have been transferred to the buyer, which generally occurs upon delivery of the goods.

Interest income

Interest is recognized on a time proportion basis taking into account the effective yield of the asset.

Royalties and other income

Royalties and other income are recognized on an accrual basis in accordance with the substance of the relevant agreement.

Operating expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the corresponding income when the service is utilized or when the expenses are incurred.

FUNCTION COSTS

Operating expenses are generally allocated to the individual functions in line with the functional area of the respective cost center. Expenses relating to cross-functional activities or projects are divided between the relevant function costs on the basis of a suitable allocation principle.

INVENTORIES

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

Inventories are measured at the lower of cost or net realizable value.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

NON-CURRENT ASSETS HELD FOR SALE

Individual non-current assets or disposal groups are classified as "non-current assets held for sale" if a sale is very likely and the asset or disposal group can be sold immediately in its current condition. "Non-current assets held for sale" are reported separately in the balance sheet and measured at the lower of the carrying amount or fair value less disposal costs. Scheduled depreciation of assets or disposal groups ends when they are classified as "non-current assets held for sale".

LEASE AGREEMENTS

If substantially all risks and rewards incidental to ownership of the leased asset are attributable to the Group as lessee, the lessee must recognize the leased asset in its balance sheet (finance lease in accordance with IAS 17). Depreciation methods and useful lives correspond to those of comparable purchased assets. The leased asset is recognized upon commencement of the lease term at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Any initial direct costs are added to the amount recognized as an asset. Liabilities for the future lease payments are recognized at the carrying amount of the leased asset and reported under financial liabilities.

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

INTANGIBLE ASSETS

Acquired and internally generated intangible assets are capitalized if it is probable that the use of the asset is associated with a future economic benefit and the cost of the asset can be reliably measured. Acquired intangible assets are measured at cost, while internally generated intangible assets are measured at cost of conversion. The cost of conversion includes all costs that are directly attributable to the production of the asset and a proportionate share of production-related overheads. Borrowing costs are not capitalized. Acquired and internally generated intangible assets with a definite useful life are amortized on a straight-line basis over a useful life of two to ten years. So-called "key money" is also included in intangible assets. These are one-time payments made to the previous tenant or to the lessor when lease agreements are concluded for retail operations in a prime location. Differentiation between definite and indefinite useful life is based on the actual circumstances in the countries in which the retail operations are located. Key money with an indefinite useful life currently relates to France, Brazil and Scandinavia.

Intangible assets with an indefinite useful life are tested for impairment annually. When indicated, an impairment is recorded.

RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed as incurred. Development costs are also expensed as incurred unless they meet the criteria for recognition as an internally generated intangible asset.

FINANCIAL INSTRUMENTS

In accordance with IAS 39, a financial instrument is any contract that simultaneously gives rise to a financial asset of one company and a financial liability or equity instrument of another company.

Financial assets include cash and cash equivalents and trade receivables as well as other loans and receivables and derivative financial assets held for trading.

Financial liabilities include trade payables, liabilities due to banks, finance lease liabilities, derivative financial liabilities held for trading, and other financial liabilities.

Financial assets and financial liabilities, to the extent relevant to the HUGO BOSS Group, are classified as follows:
a / Financial assets at fair value through profit or loss (FAHfT)
b / Loans and receivables (LaR)
c / Financial liabilities at fair value through profit or loss (FLHfT)
d / Other financial liabilities measured at amortized cost using the effective interest method (FLAC)

The financial assets and liabilities are designated to the aforementioned measurement categories upon initial recognition of the asset or liability. Reclassifications are made at the end of the fiscal year, provided they are permitted and necessary.

FINANCIAL ASSETS

Regular way purchases and sales of financial assets are accounted for as of the settlement date, i.e. the date on which the Group commits to purchasing or selling the asset.

Financial assets are measured at fair value on initial recognition. In the case of financial assets other than assets "measured at fair value through profit or loss", transaction costs directly attributable to the acquisition of the assets are also included in the fair value.

The fair value recognized in the balance sheet generally corresponds to quoted prices in an active market for the financial asset. If the market for a financial asset is not active, fair value is established by using common valuation techniques and by reference to current market parameters. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing and independent parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and the use of other valuation techniques.

In addition to cash in the narrow sense – i.e. checks, cash on hand and bank balances – cash and cash equivalents also includes short-term investments which can be converted into cash at any time and are subject only to immaterial fluctuations in value. Cash and cash equivalents are measured at amortized cost.

After initial recognition, trade receivables and other loans and receivables are measured at amortized cost, if appropriate using the effective interest method less any impairment losses. Any gains and losses are recognized in profit or loss when the receivable is derecognized, becomes impaired, or is discharged.

Financial assets are classified as "measured at fair value through profit or loss" if they are acquired with a view to subsequent disposal in the near future. These include derivative financial instruments that are not part of an effective hedging relationship in accordance with IAS 39. All gains or losses from financial assets measured at fair value through profit or loss are recognized in profit or loss.

Financial assets not classified as "measured at fair value through profit or loss" are reviewed for impairment as of each reporting date. If the fair value of a financial asset is less than its carrying amount, the carrying amount of the asset is reduced to the fair value. This reduction represents an impairment loss that is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or are transferred. To transfer a financial asset, substantially all the risks and rewards of ownership of the financial asset or control of the financial asset must be transferred.

FINANCIAL LIABILITIES

Financial liabilities are measured initially at fair value less any transaction costs directly attributable to borrowing.

Derivatives that are not part of an effective hedging relationship are classified as "financial liabilities at fair value through profit or loss". If the fair values are negative, these derivatives are recognized under the item other financial liability.

After initial recognition, trade payables and interest-bearing loans are measured at amortized cost using the effective interest method.

Any gains and losses are recognized in profit or loss when the liabilities are derecognized or repaid.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled, or expires.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

According to IAS 39, all derivative financial instruments are classified as "measured at fair value through profit or loss" and are measured at fair value, regardless of their designated purpose or intention. Changes in the fair value of the derivative financial instruments are recognized in the income statement.

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

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

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

IMPAIRMENT OF INTANGIBLE ASSETS AND ITEMS OF PROPERTY, PLANT AND EQUIPMENT

Intangible assets and items of property, plant and equipment are regularly reviewed for impairment; if there is any indication that an asset may be impaired, the recoverable amount is estimated on the basis of cash-generating unit (CGU) to which the asset belongs in accordance with IAS 36.

Impairment losses are recognized if the carrying amount of the intangible assets or items of property, plant and equipment exceeds the recoverable amount determined in accordance with the principles above as of the balance sheet date. The recoverable amount is the higher of the fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset (value in use). The present value of the estimated future cash flows from continuing use of the asset is calculated on the basis of the medium-term projections for 2011 to 2013. For the seven subsequent years, the calculation is based on country- and CGU-specific sales and cost trends; for perpetuity, a growth rate of 2% p.a. is assumed. The ten-year planning horizon on which the forecast of future cash flows is based takes into account the long-term growth rates for the respective products, sector and countries. All cash flow forecasts are discounted using the (pre-tax) discount rate of 11% calculated for the HUGO BOSS Group using a WACC model. Where necessary, the HUGO BOSS Group also takes account of the increased country risks in developing and emerging economies with a country-specific risk premium in line with the market. In the event that the reasons for impairment cease to exist, reversals of impairment losses are recognized by a corresponding increase up to amortized cost. Impairment losses recognized for goodwill are not reversed.

INCOME TAXES

Current tax refund claims and tax liabilities for the current period are measured at the amount expected to be refunded by the tax authority/paid to the tax authority. The amount is calculated based on the tax rates and tax laws applicable at the reporting date in the countries where the Group operates and generates taxable income.

In accordance with IAS 12, deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts in the tax accounts of the individual companies and the carrying amounts in the IFRS consolidated financial statements, as well as for specific transactions related to business combinations. Deferred tax assets also include claims for tax reductions resulting from the expected use of loss carryforwards in subsequent years, the realization of which is deemed reasonably certain. Deferred tax assets and liabilities are measured in accordance with the expected tax rates for the period in which the temporary differences are likely to be reversed.

LIABILITIES FROM FINANCE LEASES

Liabilities from finance leases are measured upon initial recognition at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. In subsequent periods, the liability is amortized and measured in accordance with the effective interest method.

The interest portion of the lease obligations is reported in the consolidated income statement over the term of the lease.

TREASURY SHARES

Any treasury shares purchased by the Group are recognized at cost and deducted from equity. The purchase, sale, issue or redemption of treasury shares is recognized directly in equity. In the event of a sale or reissue, any differences between the carrying amount and the consideration are recognized as share premium. The Group cannot exercise the voting rights associated with the treasury shares. Furthermore, no dividends are allocated to these shares.

PROVISIONS

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

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

RESTRUCTURING EXPENSES

Restructuring expenses are recognized in the period in which they are incurred and in which a reliable estimate is possible. Expenses in connection with an early termination of an employment relationship are recognized as expenses and financial obligation if, as part of a formal plan, the Company has demonstrably undertaken to offer benefits on the occasion of the termination of employment, thus promoting voluntarily terminations, or if it has undertaken to accept an early termination before the normal retirement age.

PROVISIONS FOR PENSIONS

The measurement of provisions for pensions is based on the projected unit credit method prescribed in IAS 19 for defined benefit plans; this method takes into account future salary and pension increases. At year-end, the present value of the defined benefit obligation is deducted by the fair value of the assets held by a long-term employee benefit fund that fulfill the definition of plan assets as set forth in IAS 19.7. Generally, actuarial gains and losses are immediately recognized in income.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

SEGMENT REPORTING

Segment reporting in the HUGO BOSS Group is based on the internal organizational and reporting structure in line with the management approach. The data on the basis of which the internal performance indicators are calculated are derived from the financial statements prepared in accordance with IFRS.

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

In preparing the consolidated financial statements, the management makes judgments, estimates and assumptions which impact the amount of the income, expenses, assets and liabilities reported as of the end of the reporting period and the disclosures of contingent liabilities. These estimates and assumptions are made so as to give an accurate view of the net assets, financial position and earnings situation of the Group. The underlying assumptions are reviewed on an ongoing basis. However, the actual amounts may differ from the original estimates.

In applying the Group's accounting methods, the management made the following judgments that significantly influence the amounts in the consolidated financial statements.

a / Measurement of directly operated stores (DOS)

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

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

The cash flows used as the basis contain material assumptions with regard to the growth rates of the respective products, sectors and countries as well as estimates of the country- and CGU-specific future sales and cost trends. The management assumes that the assumptions and estimates on which the discounted cash flows are based are appropriate. However, changes in the economic conditions and the sector-specific growth assumptions could have an impact on the impairment tests which could lead to additional impairment losses or reversals of impairment losses in the future.

b / Specific valuation allowances for receivables

The recoverability of trade receivables is determined on the basis of the estimated probability of default. Accordingly, specific valuation allowances are recognized for trade receivables due from customers in their full amount when insolvency proceedings against such customers' assets have been initiated (to the extent that existing collateral is not recoverable). Specific valuation allowances for past due receivables are based on individually determined percentages. All HUGO BOSS Group subsidiaries are obligated to maintain an aging structure of their trade receivables. This insures that a risk-adjusted write-down is possible. External expert opinions have been obtained to determine the value of collateral during such impairment reviews.

If the financial situation of the customer deteriorates, the amounts required to be derecognized could exceed the valuation allowances made, which could adversely impact financial performance.

c / Inventory measurement

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

Reductions ranging from 1% to 95% are applied to raw materials based on inventory range and marketability analyses. No write-downs are recognized for work in progress. The carrying amount of finished goods and merchandise is based on the net realizable value that can be obtained via the Group's own sales channels. Impairments recognized to account for lower expected sales prices both on the level of the distribution companies and from the Group's perspective are anticipated on the basis of marketability and inventory range analyses.

d / Intercompany profit elimination

The HUGO BOSS distribution companies normally buy finished goods and merchandise exclusively from the Group's own production and purchasing units. For the merchandise still in inventory delivered internally within the Group, gains on intercompany deliveries are eliminated during consolidation.

Intercompany profits are not eliminated if the balance sheet value of the distribution company has fallen below Group cost because of local write-downs.

The intercompany profit to be eliminated is calculated as the difference between the carrying amount of the merchandise at the level of the distribution company (after local write-downs) and Group cost. In addition, merchandise valued at Group cost is reviewed for impairment from the perspective of the HUGO BOSS Group. Additional write-downs must be recorded if Group cost is higher than anticipated net realizable value. The anticipated net realizable value from the perspective of the Group is based on the Group's own global sales channels, in particular the warehouse and outlet capacities.

e / Stock appreciation rights (SAR)

Measurement of obligations from the stock appreciation rights plan requires certain definitions to be made with respect to parameters such as the future volatility of HUGO BOSS preferred shares. These definitions are based on bank estimates.

f / Provisions

Since the HUGO BOSS Group operates in several different countries, it is subject to a large number of different legal conditions. In view of the complexity of the international regulations, it is possible that differences between the actual events and the assumptions made/changes to such assumptions may necessitate adjustments to the Group's reported provisions in the future. Provisions for possible effects of legal matters are recognized on the basis of reasonable estimates. The amount of such provisions is based on various factors such as the interpretation of the respective provisions by local consultancies. Any differences between the original estimate and the actual outcome could impact the net assets, financial position and earnings situation of the Group in the respective period.

g / Fair value of financial instruments

If the fair value of the financial assets and financial liabilities recorded on the balance sheet cannot be determined using data from an active market, it is calculated using valuation procedures, including the discounted cash flow method. The input parameters used in the model are, when possible, based on observable market data. If this is not possible, a measure of judgment is used to determine fair value. Judgment affects such input parameters as liquidity risk, credit risk and volatility. Changes in assumptions with regard to these factors may have an effect on the fair value recorded for the financial instruments.

CHANGES IN THE ACCOUNTING POLICY

As of December 31, 2010, the share capital of HUGO BOSS AG amounted to EUR 70,400 thousand, equivalent to 70,400,000 no-par-value shares. These were issued as common shares (35,860,000) and as preferred shares (34,540,000). Further information on HUGO BOSS AG shares can be found under note (18).
In accordance with Section 19, Paragraph 1 of the Articles of Association of HUGO BOSS AG, the preferred shares do not confer voting rights and entitle the bearer to additional profit of 1 cent per share. Because there is no specific statement in the International Financial Reporting Standards regarding the balance-sheet recognition of this additional dividend, the Company referred to statements by private-sector associations (Institut der Wirtschaftsprüfer – Institute of Public Auditors in Germany) in accordance with IAS 8.21. On the basis of the prevailing opinion of the IDW, a provision in accordance with IAS 32 had been recognized for the additional dividend in the previous fiscal years. In fiscal year 2010, this matter was reappraised with the effect that this additional dividend no longer meets the criteria for recognizing a provision. Issued preferred shares generally do not grant a right to a guaranteed dividend, as this depends on the net retained earnings and on the Annual Shareholders' Meeting's resolution on the appropriation of earnings.

Due to the new appraisal of the recognition of a provision for the additional dividend for preferred shares, the provision of EUR 3,665 thousand was reversed directly in equity in other retained earnings as of the 2010 balance sheet date. In 2009 and 2008, this provision amounted to EUR 3,665 thousand and EUR 3,903 thousand respectively.

The opening balance sheet values of the equity item "other retained earnings" and the provisions were adjusted as if this accounting method had always been applied. The equity item "other retained earnings" would thus have amounted to EUR 117,142 thousand as of December 31, 2009, and EUR 99,912 thousand as of December 31, 2008.

CHANGES IN PRESENTATION

The management believes that the following changes result in a more accurate presentation of the net assets, financial position and earnings situation of the Group. To allow the financial statements of the Group to be compared over time, the presentation of the items in the financial statements was also adjusted retroactively for the prior periods to match the presentation in the reporting period.

1) Effects of changes in exchange rates

HUGO BOSS AG has resolved to allocate all foreign currency gains and losses from the translation of monetary items (cash and cash equivalents, receivables and liabilities) to the other financial result, starting from fiscal year 2010.
Transactions in foreign currencies are recognized at the time of the transaction at the currently valid exchange rate. At each reporting date, all monetary items in a foreign currency are translated into the functional currency using the exchange rate at the reporting date. The resulting foreign currency gains and losses are recognized immediately in profit or loss. However, IAS 21 does not specify which item of the consolidated income statement the foreign currency gains and losses are to be included in.
Until December 31, 2009, such foreign currency gains and losses were reported both in sales and direct sales costs and in the financial result. In the interim report on the first quarter of 2010, HUGO BOSS AG decided in favor of bundled presentation of all foreign currency gains and losses and now allocates them in full to the other financial result.
Gains and losses from the translation of trade receivables and trade payables denominated in foreign currencies and changes in fair value due to exchange rate hedges in operations have been reclassified.

The reporting of the comparative figures in the Group's income statement has been adjusted accordingly. For the comparative period from January to December 2009, foreign exchange gains of EUR 3,019 thousand were reclassified from cost of sales and direct selling expenses to the other financial result.
See also note (2) Disclosures on cost of sales and direct selling expenses.

2) Classification of derivative financial instruments
The revised IAS 1 which was applied retroactively in fiscal year 2010 led to reclassification of certain derivative financial instruments from current to non-current.
The reclassification from other current financial liabilities to other non-current financial liabilities as of December 31, 2009 amounts to EUR 15,702 thousand.
See also note (28) Additional disclosures on financial instruments.

3) Provisions for pensions and similar obligations
In fiscal year 2010, the presentation of employee contributions to plan assets from deferred compensation was altered. For commitments from deferred compensation, current service costs are only incurred in the year the deferral takes place. Additional work performed no longer leads to an increase in the pension commitments. For pension commitments from previous years, employee contributions are reported in net terms at the service cost and the associated actuarial gains and losses.
The reconciliation of the present value, the plan assets and the pension expenses of the comparative period was adjusted accordingly, resulting in a decrease of EUR 2,204 thousand in the pension expenses of the comparative period. This change in presentation had no impact on the net assets, financial position and earnings situation of the Group for fiscal year 2009. See also note (24) Provisions for pensions and similar obligations.

4) Cash flow statement
The cash flow statement must only include transactions that lead directly to a change in cash and cash equivalents. All financing transactions for which no cash or cash equivalents are used do not form part of the cash flow statement.
All non-cash financing transactions relate particularly to unrealized foreign currency gains/losses, changes in the fair value of derivative financial instruments which affect profit or loss, and other non-cash changes in financial liabilities.
Consequently, the presentation for the current fiscal year and for the comparative period was adjusted. In the period from January to December 2009, the cash outflow from financing activities decreased by EUR 5,785 thousand as a result of the adjustment to non-cash transactions, while the cash inflow from operating activities decreased by the same amount. See also note (32) Notes to the consolidated statement of cash flow.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1 // SALES

in EUR thousand	2010	2009
Sale of goods	1,684,330	1,518,161
Royalties	45,116	43,702
	1,729,446	**1,561,863**

2 // COST OF SALES AND DIRECT SELLING EXPENSES

in EUR thousand	2010	2009
Purchased goods and own costs capitalized	495,164	527,310
Purchased services	104,034	94,385
Own production	62,600	59,170
Direct selling expenses	40,470	33,882
	702,268	**714,747**

Foreign exchange gains (after netting against exchange losses) which arose from sales and purchasing activities were reclassified from cost of sales and direct selling expenses to the financial result at the beginning of fiscal year 2010. As a result of this change in presentation, the cost of sales and direct selling expenses increased by EUR 3,019 thousand for the comparable period from January to December 2009 and by EUR 15,814 thousand for the comparable period from January to December 2008.

The cost of sales for fiscal year 2010 includes inventory impairment losses totaling EUR 24,361 thousand (2009: EUR 13,732 thousand). The impairment losses were attributable in particular to finished goods and raw materials, which had to be written down due to their limited recoverability.

The direct selling expenses primarily include sales commissions, freight and duties charges as well as credit card fees.

3 // SELLING AND DISTRIBUTION EXPENSES

in EUR thousand	2010	2009
Expenses for own retail business, indirect sales and marketing organization	373,468	298,236
Marketing spendings	90,884	74,000
Logistics and sourcing expenses	103,377	103,231
Bad Debts/Losses	6,701	12,416
	574,430	**487,883**

After personnel expenses, the biggest item in the expenses for the Group’s own retail business, indirect sales and marketing organization, are rental costs.

In addition to personnel and rental expenses for wholesale distribution, the expenses for indirect selling and marketing organization also include other expenses for brand management, retail services and regional sales management.

Distribution expenses consist of gross distribution expenses of EUR 107,704 thousand (2009: EUR 89,257 thousand), and income from distribution expenses of EUR 16,820 thousand (2009: EUR 15,257 thousand). Income from distribution expenses charged is largely composed of charges for shop fittings, marketing materials, advertising, and sponsorship activities.

The total other taxes on selling and distribution expenses are EUR 1,512 thousand (2009: EUR 1,833 thousand).

4 // ADMINISTRATIVE COSTS AND OTHER OPERATING EXPENSES/INCOME

in EUR thousand	**2010**	**2009**
General administration costs	127,183	112,146
Research and development costs	47,286	43,739
Special items	14,336	47,922
	188,805	**203,807**

General and administrative expenses consist largely of rent for premises, maintenance costs, IT operating costs, and legal and consulting fees as well as personnel expenses for the functional areas.

In the HUGO BOSS Group, research and development expenses are incurred primarily in the creation of fashion collections.

The total research and development costs of EUR 47,286 thousand (2009: EUR 43,739 thousand), breaks down as follows: EUR 30,590 thousand (2009: EUR 27,104 thousand) for personnel expenses, EUR 1,306 thousand (2009: EUR 1,145 thousand) for depreciation and amortization, and EUR 15,390 thousand (2009: EUR 15,490 thousand) for other operating expenses.

Special items continued to be incurred in the fiscal year 2010 in connection with the structural realignment and the changes in management in the past years. In contrast, closures of directly operated stores and showrooms played only a minor role in the past fiscal year.

Significant income was created in administration expenses by charging other costs and services totaling EUR 11,616 thousand (2009: EUR 17,860 thousand), and reversing provisions in the amount of EUR 7,868 thousand (2009: EUR 3,430 thousand), of which EUR 6,224 thousand (2009: EUR 2,166 thousand) is attributable to special items.

The total other taxes on administration expenses amount to EUR 2,004 thousand (2009: EUR 1,286 thousand).

5 // FINANCIAL RESULT

in EUR thousand	2010	2009
Interest income	**3,283**	**1,680**
Interest income due to bank deposit	2,120	346
Other interest income	1,163	1,334
Interest expense	**(20,568)**	**(24,053)**
Interest expenses from financial liabilities	(20,568)	(24,053)
Net interest income/expense	**(17,285)**	**(22,373)**
Interest expenses from provisions for pensions	743	741
Exchange rate gains/losses from receivables and liabilities	10,460	2,484
Gains/losses from hedging transactions	(3,430)	859
Other financial expenses/income	(5,276)	(489)
Other financial items	**2,497**	**3,595**
Financial result	**(14,788)**	**(18,778)**

Other interest and similar income include interest rate ceiling in the amount of EUR 11,933 thousand (2009: EUR 10,529 thousand).
As a result of the change in presentation, the gains/losses from receivables and liabilities decreased by EUR 3,019 thousand for the comparable period from January to December 2009 and by EUR 15,814 thousand for the comparable period from January to December 2008.

6 // INCOME TAXES

in EUR thousand	2010	2009
Current taxes	60,053	31,122
Deferred taxes	(126)	1,537
	59,927	**32,659**

Corporate income taxes, including the German solidarity surcharge, trade taxes charged to the German Group companies, and similar income taxes incurred by foreign Group companies, are reported as income taxes.

HUGO BOSS AG remains subject to a domestic income tax rate of 28.0% (2009: 28.0%). As in the previous year, tax rates abroad range between 0% and 41%.

In the fiscal year 2009, current income taxes included expenses relating to other reporting periods in the amount of EUR 1,913 thousand (2009: EUR 1,086 thousand). Income relating to other reporting periods totaled EUR 1,112 thousand (2009: EUR 1,328 thousand).

Deferred taxes are calculated on the basis of the tax rates applicable or anticipated in the relevant countries in accordance with the legal situation prevailing at the time of realization.

The following table shows a reconciliation of the anticipated income tax expense that would theoretically result given the application at Group level of the current domestic income tax rate of 28.0% (2009: 28.0%) with the income tax expense actually reported by the Group. The domestic income tax rate used takes into account the corporate income tax rate (including the German unification solidarity surcharge) of 15.8% (2009: 15.8%) and the trade tax rate of 12.2% (2009: 12.2%).

in EUR thousand	2010	2009
Pre-tax result	249,155	136,648
Anticipated income tax	69,763	38,262
Tax effect of permanent items	(3,326)	(8,186)
Tax rate-related deviation	(11,875)	(12,325)
Tax refunds/back taxes	737	(242)
Valuation allowance on deferred tax assets	7,600	15,150
Other deviations	(2,972)	0
Income tax expenditure reported	**59,927**	**32,659**
Income tax load	24%	24%

The income tax burden was reduced by tax-free earnings and other permanent effects totaling EUR 9,076 thousand (2009: EUR 16,464 thousand). The tax effect from non-deductible operating expenses amounted to EUR 5,751 thousand (2009: EUR 8,278 thousand).

In addition to the effects from the creation or reversal of temporary differences between the carrying amounts in the consolidated financial statements and those in the financial statements for tax purposes, expenses for deferred taxes included income from changes in the tax rates amounting to EUR 67 thousand (2009: EUR 519 thousand). Income from the correction of temporary differences in the previous year which were not taken into account was included in the amount of EUR 2,857 thousand (2009: EUR 0 thousand) under Other deviations.

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

	2010		**2009**	
in EUR thousand	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Provisions	22,639	(6)	9,408	(84)
Tax loss carryforwards	23,790	0	23,473	0
Tax on interest expense carryforwards	0	0	0	0
Inventory measurement	18,765	(4,931)	12,966	(5,586)
Recognition and measurement of non-current assets	10,023	(11,352)	3,223	(5,740)
Receivables measurement	9,615	(174)	7,976	(292)
Market valuation of financial instruments	225	(2,518)	4,187	(3)
Other differences in recognition and measurement	220	(5,897)	6,891	(4,744)
	85,277	**(24,878)**	**68,124**	**(16,449)**
Impairments[1]	(36,307)	–	(23,039)	–
	48,970	**(24,878)**	**45,085**	**(16,449)**

1 Including unrecognized tax loss carryforwards.

Deferred tax assets are recognized for all deductible temporary differences, unused tax and interest losses are carried forward and unused tax credits to the extent to which it is probable that future taxable profit will be generated against which these deductible temporary differences and the unused tax and interest losses and unused tax credits can be offset.

EUR 27,868 thousand (2009: EUR 19,306 thousand) of the deferred tax assets and EUR 13,526 thousand (2009: EUR 8,061 thousand) of the deferred tax liabilities are long-term. The entire amount is reported as long-term in the balance sheet.

Deferred tax assets on loss carryforwards and temporary differences are not recognized or impaired if there are doubts as to their future recoverability. To calculate these write-downs, all positive and negative factors that might impact the achievement of sufficient future taxable income are taken into consideration.

The impairments of deferred taxes relate to temporary differences in the amount of EUR 12,604 thousand (2009: EUR 1,145 thousand) and in the amount of EUR 23,703 thousand (2009: EUR 21,854 thousand) from loss carryforwards which will probably not be usable in the future. There were no unusable interest expense carryforwards in fiscal year 2010 (2009: EUR 3,505 thousand).

Deferred tax income in the amount of EUR 5,773 thousand (2009: EUR 6,712 thousand) was recognized directly in equity in 2010 in connection with accounting for changes in the fair values of derivatives in a hedging relationship with no gain or loss recognized.

Tax loss carryforwards related to corporate income tax mainly refer to foreign Group companies as follows:

in EUR thousand	2010	2009
Expiry within		
1 year	0	544
2 years	567	620
3 years	2,084	1,954
4 years	1,690	3,477
5 years	16,036	1,748
after 5 years	47,490	71,626
unlimited carryforward	4,065	4,659
Total tax loss carryforwards	**71,932**	**84,628**

7 // MINORITY INTERESTS IN CONSOLIDATED NET INCOME

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

8 // EARNINGS PER SHARE

Pursuant to IAS 33, earnings per share (EPS) are calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of shares outstanding during the fiscal year.

The stock option program did not have any dilutive effects in the reporting periods shown. The participation rights from the "Stock Appreciation Rights Program" solely grant a claim to cash settlement, not a claim to HUGO BOSS AG shares.

Neither on December 31, 2010 nor on December 31, 2009 were any shares outstanding that could have diluted earnings per share.

in EUR thousand	2010	2009
Net income	185,895	104,003
Average number of shares outstanding[1]		
Common shares	35,331,445	35,331,445
Preferred shares	33,684,722	33,684,722
EPS common shares in EUR[2]	2.69	1.50
EPS preferred shares in EUR[2]	2.70	1.51

1 Regardless of own shares.
2 No dilution: stock options program based on Stock Appreciation Rights (SAR).

9 // ADDITIONAL DISCLOSURES ON THE CONSOLIDATED INCOME STATEMENT

Personnel expenses

in EUR thousand	2010	2009
Own production	51,354	47,133
Logistics and sourcing expenses	65,443	62,481
Research and development costs	30,590	27,104
Expenses for own retail business, indirect sales and marketing organization	141,746	122,561
General administration costs	68,333	57,558
Special items	10,979	14,561
	368,445	**331,398**

The special items include expenses in connection with the structural realignment and the changes in management in the past years in the amount of EUR 10,979 thousand (2009: EUR 14,561 thousand).

in EUR thousand	2010	2009
Wages and salaries	313,923	277,700
Social security	48,095	46,329
Expenses and income for retirement benefits and aid	6,427	7,369
	368,445	**331,398**

The employer contribution to defined contribution pension plans amounted to approximately 6% (2009: approximately 7%) of personnel expenses.

Employees as of December 31:

	2010	2009
Industrial employees	4,269	4,062
Commercial and administrative employees	5,675	4,965
	9,944	**9,027**

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

Annual average of employees:

	2010	2009
Industrial employees	4,115	4,186
Commercial and administrative employees	5,203	4,900
	9,318	**9,086**

Depreciation/amortization

in EUR thousand	2010	2009
Own Production	4,967	5,994
Logistics and sourcing expenses	7,021	6,650
Research and development costs	1,307	1,146
Expenses for own retail business, indirect sales and marketing organization	40,679	33,263
General administration costs	17,528	16,761
Special items	708	5,321
	72,210	**69,135**

The depreciation attributable to special items concerns the depreciation of property, plant and equipment in association with the realignment in the Group's own retail business.

The depreciation on intangible assets and property, plant and equipment totals EUR 72,210 thousand (2009: EUR 69,135 thousand). The breakdown of depreciation into the corresponding balance sheet items is given in the following information on the consolidated balance sheet.

NOTES TO THE CONSOLIDATED BALANCE SHEET

FIXED ASSETS

in EUR thousand	Property, plant and equipment	Intangible assets	Total non-current assets
Cost of acquisition			
Balance on Dec. 31, 2008	**586,794**	**156,343**	**743,137**
Currency translation effects	2,085	(32)	2,053
Additions	36,271	12,066	48,337
Disposals	(31,097)	(3,944)	(35,041)
Transfers	483	(483)	0
Balance on Dec. 31, 2009	**594,536**	**163,950**	**758,486**
Changes in scope of consolidation	6,306	26,612	32,918
Currency translation effects	20,945	1,637	22,582
Additions	44,738	10,846	55,584
Disposals	(27,565)	(1,016)	(28,581)
Transfers	(715)	715	0
Balance on Dec. 31, 2010	**638,245**	**202,744**	**840,989**
Depreciation/amortization			
Balance on Dec. 31, 2008	**291,987**	**51,325**	**343,312**
Currency translation effects	557	(303)	254
Additions	55,096	14,039	69,135
Disposals	(23,544)	(2,498)	(26,042)
Balance on Dec. 31, 2009	**324,096**	**62,563**	**386,659**
Changes in scope of consolidation	2,057	3	2,060
Currency translation effects	13,527	1,388	14,915
Additions	59,396	12,814	72,210
Disposals	(25,246)	(961)	(26,207)
Balance on Dec. 31, 2010	**373,830**	**75,807**	**449,637**
Carrying amount on Dec. 31, 2010	**264,415**	**126,937**	**391,352**
Carrying amount on Dec. 31, 2009	**270,440**	**101,387**	**371,827**

Land charges in connection with land and buildings amounted to EUR 33,661 thousand (2009: EUR 35,013 thousand).

10 // INTANGIBLE ASSETS

in EUR thousand	Franchises, industrial property rights[1]	Internally developed software	Goodwill	Total
Cost of acquisition				
Balance on Dec. 31, 2008	**122,925**	**5,603**	**27,815**	**156,343**
Currency translation effects	(32)	0	0	(32)
Additions	12,066	0	0	12,066
Disposals	(3,944)	0	0	(3,944)
Transfers	(483)	0	0	(483)
Balance on Dec. 31, 2009	**130,532**	**5,603**	**27,815**	**163,950**
Changes in scope of consolidation	16,388	0	10,224	26,612
Currency translation effects	1,637	0	0	1,637
Additions	10,846	0	0	10,846
Disposals	(1,016)	0	0	(1,016)
Transfers	715	0	0	715
Balance on Dec. 31, 2010	**159,102**	**5,603**	**38,039**	**202,744**
Depreciation/amortization				
Balance on Dec. 31, 2008	**43,491**	**5,603**	**2,231**	**51,325**
Currency translation effects	(303)	0	0	(303)
Additions	14,039	0	0	14,039
Disposals	(2,498)	0	0	(2,498)
Balance on Dec. 31, 2009	**54,729**	**5,603**	**2,231**	**62,563**
Changes in scope of consolidation	3	0	0	3
Currency translation effects	1,388	0	0	1,388
Additions	12,814	0	0	12,814
Disposals	(961)	0	0	(961)
Balance on Dec. 31, 2010	**67,973**	**5,603**	**2,231**	**75,807**
Carrying amount on Dec. 31, 2010	**91,129**	**0**	**35,808**	**126,937**
Carrying amount on Dec. 31, 2009	**75,803**	**0**	**25,584**	**101,387**

1 And similar rights, including licenses.

In addition to trademark rights (EUR 14,992 thousand) and key money (EUR 12,241 thousand), the item Franchises and industrial property rights includes software from the "Columbus" IT project (EUR 36,038 thousand) and other software licenses (EUR 12,925 thousand). The changes from the scope of consolidation result from the purchase price allocation for the joint venture companies carried out as part of initial consolidation. Intangible assets of EUR 14,933 thousand were identified at Shenzhen Lotus Trading Co., Ltd., Shenzhen, China and at Lotus Concept Trading (Macau) Co., Ltd., Macau. These include the business licenses and the franchise agreements.

The "Columbus" IT project started in fiscal 2003 and resulted in the purchase of new software for the entire enterprise management. This affected the purchasing, production control, logistics, distribution and financial systems (worldwide). Over the lifetime of the "Columbus" project, intangible assets with an acquisition cost of EUR 56,836 thousand (2009: EUR 53,084 thousand) were recognized on the balance sheet for the ERP system, consisting of the industry solution SAP AFS as well as SAP Retail for the Group's own retail stores. Of this amount, EUR 20,797 thousand (2009: EUR 15,597 thousand) had been amortized as of the balance sheet date.

As of the balance sheet date, key money in the amount of EUR 12,241 thousand (2009: EUR 11,483 thousand) had been recognized. Of this, EUR 5,537 thousand (2009: EUR 4,415 thousand) is allocated to key money with an indefinite useful life and EUR 6,704 thousand (2009: EUR 7,068 thousand) to key money with a definite useful life.

In accordance with IAS 38, goodwill is classified as an asset with an indefinite useful life, and relates primarily to the menswear segment in Australia (EUR 6,874 thousand) and men's shoes and leather accessories (EUR 18,710 thousand). The initial consolidation of the joint venture companies resulted in goodwill of EUR 10,224 thousand at the level of HUGO BOSS Lotus Hong Kong Ltd, Hong Kong.

The trademark rights presented in the item Franchises and industrial property rights in the amount of EUR 14,992 thousand, which are primarily related to the menswear segment in the U.S.A., are also classified as assets with indefinite useful lives.

In fiscal years 2010 and 2009, no impairment loss for goodwill or for trademark rights was incurred.

In contrast, impairment losses on intangible assets with indefinite useful lives totaled EUR 571 thousand (2009: EUR 2,990 thousand). These losses were mainly due to key money amounts attributed to individual stores. Impairment losses were calculated using impairment tests and are allocated to depreciation/amortization in the relevant functional areas.

11 // PROPERTY, PLANT AND EQUIPMENT

in EUR thousand	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total
Cost of acquisition					
Balance on Dec. 31, 2008	**121,805**	**44,697**	**384,348**	**35,944**	**586,794**
Currency translation effects	(328)	(110)	2,521	2	2,085
Additions	840	2,114	32,552	765	36,271
Disposals	(3,562)	(5,050)	(22,330)	(155)	(31,097)
Transfers	16,093	(222)	19,712	(35,100)	483
Balance on Dec. 31, 2009	**134,848**	**41,429**	**416,803**	**1,456**	**594,536**
Changes in scope of consolidation	0	0	6,306	0	6,306
Currency translation effects	839	1,162	18,933	11	20,945
Additions	327	1,113	39,525	3,773	44,738
Disposals	(23)	(1,788)	(25,754)	0	(27,565)
Transfers	275	69	2,211	(3,270)	(715)
Balance on Dec. 31, 2010	**136,266**	**41,985**	**458,024**	**1,970**	**638,245**
Depreciation/amortization					
Balance on Dec. 31, 2008	**37,391**	**30,442**	**223,696**	**458**	**291,987**
Currency translation effects	(128)	(78)	757	6	557
Additions	7,137	4,088	43,871	0	55,096
Disposals	(3,483)	(4,597)	(15,464)	0	(23,544)
Balance on Dec. 31, 2009	**40,917**	**29,855**	**252,860**	**464**	**324,096**
Changes in scope of consolidation	0	0	2,057	0	2,057
Currency translation effects	417	970	12,138	2	13,527
Additions	6,476	3,516	49,404	0	59,396
Disposals	0	(1,717)	(23,529)	0	(25,246)
Balance on Dec. 31, 2010	**47,810**	**32,624**	**292,930**	**466**	**373,830**
Carrying amount on Dec. 31, 2010	**88,456**	**9,361**	**165,094**	**1,504**	**264,415**
Carrying amount on Dec. 31, 2009	**93,931**	**11,574**	**163,943**	**992**	**270,440**

Impairment losses on property, plant and equipment totaled EUR 6,529 thousand (2009: EUR 4,445 thousand) and are allocated to depreciation/amortization in the relevant functional areas in the consolidated income statement. Impairment losses were mainly also attributable to property, plant and equipment of certain stores. They were taken after conducting impairment tests.

12 // NON-CURRENT ASSETS HELD FOR SALE

In the fourth quarter of 2010, the former office building of HUGO BOSS Shoes & Accessories S.p.A., Morrovalle, Italy, was classified as a "non-current asset held for sale" due to the intention to sell it in fiscal year in 2011 and the fact that there is an offer to buy. In the previous fiscal year, the office building had already been written off in full due to a lack of further use/marketability. The offer to buy which was made led to a reversal of the impairment loss in the amount of EUR 1,290 thousand. This value is equivalent to the lower of amortized cost and fair value less disposal costs.
The gain from this reversal was included in the statement of comprehensive income in the item other operating expenses/income. HUGO BOSS Shoes & Accessories S.p.A., Morrovalle, Italy is allocated to the "Corporate Center" segment.

13 // OTHER ASSETS

	2010			2009		
in EUR thousand		thereof current	thereof non-current		thereof current	thereof non-current
Financial assets	31,464	10,621	20,843	16,146	5,725	10,421
Tax refund claims and prepayments	12,933	12,908	25	14,621	14,517	104
Other assets	51,866	49,013	2,853	39,664	35,404	4,260
	96,263	**72,542**	**23,721**	**70,431**	**55,646**	**14,785**

Financial assets includes positive fair values from currency hedging transactions and the call option of the SAR program in the amount of EUR 19,000 thousand (2009: EUR 5,630 thousand) and rent deposits for directly operated stores in the amount of EUR 12,464 thousand (2009: EUR 10,317 thousand).

Impairment losses on other assets in the fiscal year 2010 amounted to EUR 939 thousand (2009: EUR 4,585 thousand).

Other assets include receivables from credit card companies, bonus receivables from supplier relationships and advance payments for service contracts and rents.

14 // INVENTORIES

in EUR thousand	2010	2009
Finished goods and merchandise	311,056	252,647
Raw materials and supplies	62,225	50,562
Work in progress	4,049	2,769
	377,330	**305,978**

The carrying amount of inventories recognized at the lower net realizable amount is EUR 124,111 thousand (2009: EUR 100,991 thousand). In fiscal year 2010, impairment losses on finished goods and raw materials in particular amounted to EUR 24,361 thousand (2009: EUR 13,732 thousand).

15 // TRADE RECEIVABLES

in EUR thousand	2010	2009
Trade receivables	**133,365**	**140,074**

Trade receivables do not bear interest and generally have a maturity of 30 to 90 days.

All recognizable risks are carried by appropriate impairment losses. Specific shortfalls will result in the claims in question being written off.

At December 31, 2010, trade receivables were impaired to EUR 36,760 thousand (2009: EUR 31,604 thousand).

The development of impairment losses on doubtful accounts is as follows:

in EUR thousand	2010	2009
Allowances for doubtful accounts as of January 1	**31,604**	**29,261**
Additions	6,702	8,591
Use	(2,088)	(387)
Release	12	(6,168)
Currency differences	530	307
Allowances for doubtful accounts as of December 31	**36,760**	**31,604**

Any income or expense from allowances on trade receivables is shown under sales and marketing spending.

As of December 31, the aging structure of trade receivables was as follows:

in EUR thousand	2010	2009
Carrying amount	**133,365**	**140,074**
thereof: neither due, nor impaired	**88,514**	**91,696**
thereof: overdue, but not impaired	**44,851**	**48,378**
≤ 30 days	25,253	18,352
> 30 to 60 days	10,549	14,078
> 60 to 90 days	5,227	7,803
> 90 to 120 days	1,900	2,762
> 120 to 180 days	614	528
> 180 to 360 days	985	3,579
> 360 days	323	1,276

As of the reporting date, there was no indication that any creditors would default on their payment obligations with regard to receivables that were neither due nor impaired. The total of overdue but not impaired receivables (EUR 44,851 thousand) is equivalent to the difference between overdue receivables (EUR 81,611 thousand) and the valuation allowances (EUR 36,760 thousand) recognized on them.
The default risk of insured receivables is limited to the deductible.

16 // CASH AND CASH EQUIVALENTS

in EUR thousand	2010	2009
Balances with banks and other cash items	289,228	112,093
Checks/ec-cash	3,199	14
Cash in hand	2,457	1,975
	294,884	**114,082**

In addition to cash in the narrow sense – i.e. checks, cash on hand and bank balances – cash and cash equivalents also includes short-term investments which can be converted into cash at any time and are subject only to immaterial fluctuations in value.

As of the reporting date, the bank balances item includes short-term investments totaling EUR 245,600 thousand (previous year: EUR 0 thousand).

17 // SUBSCRIBED CAPITAL

The fully paid-up share capital in HUGO BOSS AG at December 31, 2010, totaled EUR 70,400,000. It is divided into 70,400,000 no-par value bearer shares, and can be broken down as follows:

in EUR thousand	2010	2009
Common shares 35,860,000 shares	35,860	35,860
Non-voting preferred shares 34,540,000 shares	34,540	34,540
	70,400	**70,400**

The Managing Board of HUGO BOSS AG has authorized capital of EUR 35,200,000 at its disposal until May 13, 2014, subject to the consent of the Supervisory Board. Authorized capital allows the Company to increase its share capital on one or more occasions by issuing new common or preferred shares.

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

18 // TREASURY SHARES

The number of treasury shares has remained unchanged since the previous year:

	2010	2009
Common shares	528,555	528,555
Share of subscribed capital in %	0.8	0.8
Preferred shares	855,278	855,278
Share of subscribed capital in %	1.2	1.2

A resolution was passed at the Annual Shareholders' Meeting of June 21, 2010 to extend the authorization to acquire own shares through June 20, 2015.

19 // CAPITAL RESERVE

The capital reserve contains premiums on the issuance of shares.

20 // RETAINED EARNINGS

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

21 // ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income reflects differences arising from the currency translation of foreign subsidiaries' financial statements with a negative impact on equity of EUR –14,853 thousand (2009: EUR –30,691 thousand) and the effects of the measurement of financial instruments after taxes, neither of which is recognized in income. Deferred tax income not recognized in the income statement amount to EUR 5,773 thousand (2009: EUR 6,712 thousand).

With respect to income and expenses recognized in equity, please refer to the Statement of Comprehensive Income.

22 // DIVIDEND

In accordance with the German Stock Corporation Act (AktG), the dividend payout to shareholders is based on net retained earnings for the year amounting to EUR 142,553 thousand as reported in the HUGO BOSS AG financial statements. The dividend proposed to the Annual Shareholders' Meeting for distribution from the net retained earnings of HUGO BOSS AG in 2010 amounts to EUR 139,749 thousand. This corresponds to EUR 2.02 per common share and EUR 2.03 per preferred share. A recommendation will also be made to the Annual Shareholders' Meeting for the dividend amount attributable to own shares of EUR 2,804 thousand to be carried forward.

In 2010, dividends totaling EUR 66,592 thousand were paid out for outstanding shares for the fiscal year 2009 (in 2009 for the fiscal year 2008: EUR 94,889 thousand). This equates to EUR 0.96 (2008: EUR 1.37) per common share and EUR 0.97 (2008: EUR 1.38) per preferred share.

23 // PROVISIONS

in EUR thousand	**2010**	**2009**
Provisions for pensions	19,319	12,433
Other non-current provisions	19,728	20,135
Non-current provisions	**39,047**	**32,568**
Current provisions	**86,807**	**55,763**
	125,854	**88,331**

Other provisions amounting to EUR 106,535 thousand (2009: EUR 75,898 thousand) comprise current provisions of EUR 86,807 thousand (2009: EUR 55,763 thousand) and other non-current provisions of EUR 19,728 thousand (2009: EUR 20,135 thousand).

Other provisions changed as follows during the fiscal year 2010:

in EUR thousand	Balance on Jan. 1, 2010	Currency differences	Addition	Use	Release	Balance on Dec. 31, 2010
Provisions for personnel expenses	37,945	908	38,513	(22,106)	(1,637)	53,623
Costs of litigation, pending legal disputes	5,821	54	1,655	(1,523)	(557)	5,450
Miscellaneous provisions	32,132	2,234	31,456	(15,669)	(2,691)	47,462
	75,898	**3,196**	**71,624**	**(39,298)**	**(4,885)**	**106,535**

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

Overall, the Company expects that EUR 19,728 thousand (2009: EUR 20,135 thousand) of the provisions for personnel expenses will become due for payment after more than twelve months.

Provisions for litigation costs and pending legal disputes include litigation costs for trademark protection. These provisions are classified as current provisions. Provisions for possible effects of legal matters were also recognized on the basis of reasonable estimates.

Miscellaneous provisions mainly include provisions for product returns that are expected to be settled within twelve months as well as provisions for expenses in connection with an early termination of an employment relationship due to the reorganization of the Group structure.

24 // PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The amount of the benefit obligations was determined using actuarial methods in accordance with IAS 19, with actuarial gains and losses being recognized in profit or loss in the period in which they occurred.

in EUR thousand	2010	2009
Provisions for pensions	16,006	9,270
Provisions for similar obligations	3,313	3,163
	19,319	**12,433**

Pension provisions are created for obligations based on pension benefits and for ongoing payments to eligible active and former employees of the HUGO BOSS Group. Pension commitments based on the retirement plans are determined largely by the period of service of the eligible employees. With company pensions, a distinction is generally made between two types of pension system: defined contribution pension plans and defined benefit pension plans. In the HUGO BOSS Group, the pensions plans are mostly defined benefit pension plans. The HUGO BOSS Group also offers Managing Board members and executives the option to acquire additional pension benefits by means of deferred compensation agreements.

The company retirement plan is mostly funded by plan assets, to which the reinsurance policies are attributed as qualifying insurance policies in accordance with IAS 19.7 in conjunction with IAS 19.102 et seq.

Calculation of pension expenses is based on planned service cost and expected returns on plan assets. Based on the calculation principles set forth in IAS 19, the following is a summary of the current funding status of pension commitments in fiscal year 2010:

in EUR thousand	2010	2009
Change in present value of benefit obligation		
Present value of benefit obligation on January 1	49,199	40,126
Currency differences	2,586	111
Service cost	5,382	4,269
Interest cost	2,449	2,113
Actuarial gains/losses	4,005	2,479
Benefits paid	(3,314)	(2,183)
Contribution by participants of the plan	5,592	2,200
Past service cost	0	0
Other changes in benefit obligation	0	84
Present Value of benefit obligation on December 31	**65,899**	**49,199**
Change in plan assets		
Fair value of plan assets on January 1	39,929	31,440
Currency differences	1,768	76
Netting with plan assets	0	0
Expected return on plan assets	1,707	1,372
Benefits paid	(2,714)	(1,684)
Actuarial gains/losses	(138)	795
Contribution by participants of the plan	5,592	2,200
Asset Ceiling IAS 19.58	200	(199)
Other changes in plan assets	3,549	5,929
Fair value of plan assets on December 31	**49,893**	**39,929**
Funding status of the benefits funded by plan assets	**16,006**	**9,270**
Pensions funded by provisions	0	0
Provisions for pensions	**16,006**	**9,270**

The change in present values as compared to the previous year resulted partly from the change in the discount rate in Germany from 5.30% to 4.65%. This change is reflected in the actuarial gains and losses.

Pension expenses consist of service costs for the period, interest expense, expected return on plan assets, actuarial gains and losses, net income/expense based on the asset ceiling pursuant to IAS 19.58, and any other changes in the present value of the benefit obligation and the plan assets.

In fiscal year 2010, the presentation of employee contributions to plan assets from deferred compensation was altered. For commitments from deferred compensation, current service costs are only incurred in the year the deferral takes place. Additional work performed no longer leads to an increase in the pension commitments. For pension commitments from previous years, employee contributions are reported in net terms at the service cost and the associated actuarial gains and losses. The reconciliation of the present value, the plan assets and the pension expenses of the comparative period was adjusted accordingly.

Since the beginning of fiscal year 2009, interest expenses are reported under the other financial result.

in EUR thousand	2010	2009
Current service costs	5,382	4,269
Interest costs	2,449	2,113
Expected return on plan assets	(1,707)	(1,372)
Actuarial gains/losses recognized	4,143	1,684
Asset ceiling	(200)	199
Past service cost	0	0
Pensions expenses for the period	**10,067**	**6,893**

The amounts for the current and the four preceding reporting periods are as follows:

in EUR thousand	2010	2009	2008	2007	2006
Present value of benefit obligation	65,899	49,199	40,249	33,954	33,955
Fair value of plan assets	49,893	39,929	31,441	24,469	21,305
Funding status of the benefits funded by plan assets	**16,006**	**9,270**	**8,808**	**9,485**	**12,650**

The actuarial calculation used to determine the present value of the defined benefit obligations also included relevant influencing values as well as the planned service cost and the expected return on plan assets. In addition to assumptions regarding life expectancy, the following assumptions were made here, taking into account country-specific circumstances:

Actuarial assumptions	2010	2009
Discount rate		
Germany	4.65%	5.30%
Mexico	9.25%	9.00%
Switzerland	2.50%	3.50%
Rate of compensation increase		
Germany	1.75%	1.75%
Mexico	0.00%	0.00%
Switzerland	0.00%	0.00%
Expected salary increase		
Germany	2.50%	0.00%
Mexico	4.75%	4.75%
Switzerland	4.00%	4.00%
Expected rate of return on plan assets		
Germany	4.50%	4.50%
Mexico	0.00%	0.00%
Switzerland	2.50%	3.50%

The expected total return on plan assets was calculated on the basis of common market expectations for the period during which the obligations were fulfilled.

Employee contributions to defined benefit plans in fiscal year 2010 totaled EUR 7,400 thousand (2009: EUR 3,671 thousand). For fiscal year 2011, the Group expects employee contributions to defined benefit plans to total EUR 1,238 thousand.

Employer contributions to plan assets in the past fiscal year totaled EUR 1,742 thousand (2009: EUR 4,737 thousand), employee contributions EUR 7,400 thousand (2009: EUR 3,671 thousand). For fiscal year 2011, the Group expects employer contributions to plan assets to amount to EUR 1,334 thousand and employee contributions to EUR 1,238 thousand.

Pension obligations for Germany were calculated using biometric principles in accordance with the 2005 G mortality tables compiled by Prof. Dr. Klaus Heubeck. In addition, the assumptions upon which the calculation of pension provisions is based are subject to economic fluctuations, such as interest rate changes. Deviations in the corresponding parameters could have an influence on the present value and fund assets reported on the balance sheet in future periods.

25 // FINANCIAL LIABILITIES

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

in EUR thousand	2010	2009
Non-current financial liabilities	514,122	494,218
Current financial liabilities	18,814	28,214
	532,936	**522,432**

in EUR thousand	2010	with remaining term up to 1 year	2009	with remaining term up to 1 year
Financial liabilities due to banks	495,961	1,722	493,091	14,584
Other financial liabilities	36,975	17,092	29,341	13,630
	532,936	**18,814**	**522,432**	**28,214**

Other financial liabilities include liabilities from finance leases in the amount of EUR 15 thousand (2009: EUR 78 thousand) and liabilities from financial instruments with negative fair values totaling EUR 25,740 thousand (2009: EUR 29,263 thousand).

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

FINANCIAL LIABILITIES DUE TO BANKS

	2010		2009	
Remaining term	Weighted average interest rate	Carrying amount EUR thous.	Weighted average interest rate	Carrying amount EUR thous.
up to 1 year	4.93%	1,722	1.69%	14,584
1 to 5 years	1.48%	468,665	1.38%	451,165
more than 5 years	5.67%	25,574	5.67%	27,342

In comparison to the previous year, liabilities from an existing loan agreement in Japan in the amount of EUR 15,647 thousand were classified as non-current (1 to 5 years) at a low average interest rate as of the reporting date on December 31, 2010, as HUGO BOSS expects this obligation to be refinanced or extended for at least twelve months after the reporting date.

OTHER FINANCIAL LIABILITIES

	2010		2009	
Remaining term	Weighted average interest rate	Carrying amount EUR thous.	Weighted average interest rate	Carrying amount EUR thous.
up to 1 year	3.12%	17,092	6.70%	13,630
1 to 5 years	3.17%	19,315	6.70%	15,292
more than 5 years	4.41%	568	–	419

More information on the objectives, methods and processes of capital management is available in the Management Report in the chapter "Financial position".

The following table shows the contractual (undiscounted) cash flows for non-derivative financial liabilities and for derivative financial instruments with negative fair values:

		Expected cash flows			
2010 in EUR thousand	**Carrying amount**	**Total cash flows**	**< 1 year**	**1–5 years**	**> 5 years**
Non-derivative financial liabilities					
Financial liabilities due to banks	495,961	514,186	10,171	490,594	13,421
Liabilities from finance leases	15	15	14	1	0
Derivative financial liabilities					
Freestanding derivatives	3,100	3,315	617	1,979	719
Derivatives subject to hedge accounting	22,640	22,914	10,787	12,127	0
Other financial liabilities	11,220	11,220	5,727	5,493	0
Financial liabilities	**532,936**	**551,650**	**27,316**	**510,194**	**14,140**

		Expected cash flows			
2009 in EUR thousand	**Carrying amount**	**Total cash flows**	**< 1 year**	**1–5 years**	**> 5 years**
Non-derivative financial liabilities					
Financial liabilities due to banks	493,091	546,980	32,717	498,775	15,488
Liabilities from finance leases	78	78	69	9	0
Derivative financial liabilities					
Freestanding derivatives	2,782	2,782	1,053	1,086	643
Derivatives subject to hedge accounting	26,481	26,481	13,285	13,196	0
Other financial liabilities	0	0	0	0	0
Financial liabilities	**522,432**	**576,321**	**47,124**	**513,066**	**16,131**

All financial instruments held as of December 31, 2010 and for which payments were already contractually agreed were included. Forecast figures for new liabilities incurred in the future are not taken into account in this table.

26 // OTHER LIABILITIES

in EUR thousand	2010	thereof current	thereof non-current	2009	thereof current	thereof non-current
Other liabilities	84,947	57,840	27,107	65,535	41,098	24,437
from taxes	(18,501)	(18,501)	0	(14,981)	(14,981)	0
from social security	(3,800)	(3,800)	0	(4,296)	(4,296)	0
	84,947	**57,840**	**27,107**	**65,535**	**41,098**	**24,437**

In addition to liabilities for taxes and social security, other liabilities primarily include deferred liabilities from rent obligations for directly operated retail business and for outstanding wage and salary payments, overtime and vacation entitlement.

27 // TRADE PAYABLES

in EUR thousand	2010	2009
Trade payables	187,991	150,454

Trade payables usually have terms to maturity of up to one year.

28 // ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of all financial instruments recognized in the consolidated financial statements.

CARRYING AMOUNTS AND FAIR VALUES BY CLASS OF FINANCIAL INSTRUMENTS

		2010		2009	
in EUR thousand	IAS 39 category	Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Cash and cash equivalents	LaR	294,884	294,884	114,082	114,082
Trade receivables	LaR	133,365	133,365	140,074	140,074
Other financial assets		31,464	31,464	16,146	16,146
thereof:					
Freestanding derivatives	FAHfT	19,000	19,000	5,398	5,398
Derivatives subject to hedge accounting	n.a.	0	0	232	232
Other financial assets	LaR	12,464	12,464	10,516	10,516
Liabilities					
Financial liabilities due to banks	FLAC	495,961	497,573	493,091	496,724
Trade payables	FLAC	187,991	187,991	150,454	150,454
Other financial liabilities		36,975	36,975	29,341	29,341
thereof:					
Liabilities from finance leases	n.a.	15	15	78	78
Freestanding derivatives	FLHfT	3,100	3,100	2,782	2,782
Derivatives subject to hedge accounting	n.a.	22,640	22,640	26,481	26,481
Other financial liabilities	FLAC	11,220	11,220	0	0
Totals for categories of financial instruments according to IAS 39:					
Loans and Receivables	LaR	440,713	440,713	264,672	264,672
Financial Assets Held for Trading	FAHfT	19,000	19,000	5,398	5,398
Financial Liabilities Measured at Amortised Cost	FLAC	695,172	696,784	643,545	647,178
Financial Liabilities Held for Trading	FLHfT	3,100	3,100	2,782	2,782

The fair value of financial assets and financial liabilities is indicated with the amount for which the relevant instrument could be exchanged in a current transaction between willing parties. The methods and assumptions used in determining fair value are as follows:

Cash and cash equivalents, trade receivables, trade payables and other current liabilities come very close to their carrying value, primarily due to the short maturities of these instruments.

The fair value of bank loans and other financial liabilities, liabilities from financial leases and other non-current financial liabilities is estimated by discounting the future cash flows using interest rates currently available for borrowing at similar conditions, credit risks and maturities.

The fair value of financial assets available for sale will be determined, if available, on the basis of market prices in active markets.

The Group enters into derivative financial instruments with various parties, particularly with financial institutions with good credit quality (investment grade). Derivatives valued using an evaluation process with input parameters observable on the market evaluated primarily include interest rate swaps and currency forward contracts. The most frequently used assessment procedures include the forward price and swap models using present value calculations. These models take account of different measures, such as the creditworthiness of counterparties, foreign exchange spot and forward rates, yield curves and forward rates of the underlying commodities.

The revised IAS 1 which was applied retroactively in fiscal year 2010 led to reclassification of certain derivative financial instruments from current to non-current. The reclassification from other current financial liabilities to other non-current financial liabilities as of December 31, 2009 amounts to EUR 15,702 thousand.

As of December 31, 2010, the derivative positions are valued at market prices (marked-to-market) minus the allowance for creditworthiness, which is based on the default risk of the counterparty of the derivative. The changes in credit risk of the counterparty had no significant impact on the assessment of the effectiveness of the hedging relationship.

HIERARCHY OF FAIR VALUES

The Group uses the following hierarchy to determine and report the fair value of financial instruments by valuation method:

Step 1: Listed (non-adjusted) prices in active markets for similar assets or liabilities
Step 2: Method in which all the input parameters that have a significant impact on the determination of fair value are either directly or indirectly observable
Step 3: Method in which the input parameters that have a significant impact on the determination of fair value are not based on observable market data

As of December 31, 2010, step 2 applies to all financial instruments in the categories FAHfT and FLHfT and to derivatives with hedging relationships that are measured at fair value.

NET GAINS OR LOSSES BY CATEGORY OF FINANCIAL INSTRUMENTS

in EUR thousand	Interest income and expenses	Changes in fair value	Currency translation	Bad debt losses	Disposal of financial instruments	2010	2009
Derivatives (FAHfT and FLHfT)	0	11,198	0	0	(146)	11,052	5,642
Loans and Receivables (LaR)	3,283	0	(2,110)	(6,701)	0	(5,528)	(7,909)
Financial Liabilities Measured at Amortised Cost (FLAC)	(20,568)	0	12,570	0	0	(7,998)	(24,397)

Interest from financial instruments is reported under net interest income/expense (see note (5) to the consolidated income statement).

Valuation allowances on trade receivables attributable to Loans and receivables are classified as other operating expenses.

Gains and losses from the translation of receivables and liabilities denominated in foreign currencies and changes in fair value due to exchange rate hedges are reported under the other financial result.

The effects from the change in fair value of the call options to hedge the SAR provisions are recognized in personnel expenses and in other financial items (also see note (36) Share-based payments).

OTHER DISCLOSURES

29 // CONTINGENT LIABILITIES

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

in EUR thousand	2010	2009
Contingent liabilities from the provision of collateral for third-party liabilities	933	3,150
Other contingent liabilities	0	0
	933	**3,150**

30 // OTHER FINANCIAL OBLIGATIONS

Operating leases

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

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

In fiscal 2010, rental expenses in the amount of EUR 127,659 thousand (2009: EUR 114,548 thousand) were recognized for operating leases. Contingent rental expenses totaled EUR 14,262 thousand (2009: EUR 7,546 thousand).

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

2010 in EUR thousand	**Due 2011**	**Due 2012 – 2015**	**Due after 2015**	**Total**
Sum of future minimum lease payments (operating leases)	110,904	301,998	180,492	593,394
Other obligations	10,585	8,646	2	19,233
	121,489	**310,644**	**180,494**	**612,627**

2009 in EUR thousand	**Due 2010**	**Due 2011 – 2014**	**Due after 2014**	**Total**
Sum of future minimum lease payments (operating leases)	99,809	254,192	161,378	515,379
Other obligations	7,450	20,951	6	28,407
	107,259	**275,143**	**161,384**	**543,786**

As in the previous year, the Group did not generate substantial revenues from subleases in the 2010 fiscal year.

Finance leases

Property, plant and equipment includes land amounting to EUR 9 thousand (2009: EUR 78 thousand), which is attributed to the Group's beneficial ownership as per IAS 17. In contrast to the previous year, operating and office equipment is included in the amount of EUR 6 thousand (2009: EUR 0 thousand).

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

in EUR thousand	Due 2011	Due 2012 to 2015	Due after 2015
Minimum lease payments	18	1	0
Discounts	4	0	0
Present value	14	1	0

Other financial obligations

The HUGO BOSS Group has entered into advertising and sponsorship agreements which result in other financial obligations. This results in the following payments in subsequent years:

2010 in EUR thousand	Due 2011	Due 2012–2015	Due after 2015	Total
Advertising and sponsoring contracts	9,336	24,204	0	33,540
	9,336	**24,204**	**0**	**33,540**

2009 in EUR thousand	Due 2010	Due 2011–2014	Due after 2014	Total
Advertising and sponsoring contracts	6,802	21,352	0	28,154
	6,802	**21,352**	**0**	**28,154**

There are also purchase commitments for investments in the amount of EUR 2,975 thousand (2009: EUR 3,217 thousand). EUR 1,966 thousand of this relates to property, plant and equipment (2009: EUR 2,572 thousand) and EUR 1,009 thousand relates to intangible assets (2009: EUR 645 thousand). In both 2010 and 2009, the purchase commitments were due within one year. There are no further financial obligations.

31 // HEDGING POLICIES AND FINANCIAL DERIVATIVES

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

	2010		2009	
in EUR thousand	Nominal amounts	Fair values	Nominal amounts	Fair values
Assets				
Currency hedging contracts	56,343	4,008	44,676	722
Interest hedging contracts	0	0	0	0
Call options (SAR-Hedges)	21,846	14,992	26,611	4,908
Liabilities				
Currency hedging contracts	24,216	(734)	19,504	(1,756)
Interest hedging contracts	(313,030)	(25,006)	(313,482)	(27,507)
Call options (SAR-Hedges)	0	0	0	0
	(210,625)	**(6,740)**	**(222,691)**	**(23,633)**

The nominal amounts shown reflect the hedged amount of the respective underlying transaction.

The fair values of financial derivatives are carried as other financial assets or other financial liabilities. The fair values do not necessarily represent the amounts that will be realized in the future under prevailing market conditions.

In addition, financial assets include the fair values of call options to hedge the SAR provisions in the amount of EUR 14,992 thousand (2009: EUR 4,908 thousand).

The fair value of derivative financial instruments recognized includes a fair value of EUR 15,900 thousand (2009: EUR 2,616 thousand) from financial assets and liabilities classified as held for trading.

As of December 31, 2010, expenses totaling EUR –16,867 thousand (2009: EUR –19,537 thousand) resulting from the change in fair value of derivative financial instruments were recognized directly in equity in the item accumulated other comprehensive income after deducting deferred taxes. Losses totaling EUR –7,835 thousand (2009: gains of EUR 3,350 thousand) were transferred from accumulated other comprehensive income to profit and loss in the fiscal year 2010.

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

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

Currency risks
The information required under IFRS 7 on currency risks as well as a corresponding sensitivity analysis are presented in detail in the chapter entitled Risk Report in the Management Report. In contrast to the previous year, the calculation of the currency risk is based not on the planned foreign currency exposure but on the exposure already recognized. This is due to the change in the hedging strategy, which is now aimed at limiting balance sheet risks rather than at safeguarding future cash flows as previously.

Interest risks
The information required under IFRS 7 on interest rate risks as well as a corresponding sensitivity analysis are presented in detail in the chapter entitled Risk Report in the Management Report.

Risks arising from **stock appreciation rights** are presented in detail in note (36).

32 // NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOW

The HUGO BOSS Group's cash flow statement shows the changes that occurred in cash and cash equivalents during the year under review on the basis of cash transactions. Pursuant to IAS 7, cash flows are reported separately according to source and application in operating activities, investing activities, and financing activities. Cash flows from current business activities are derived indirectly based on the Group's net income. By contrast, cash flows from investing and financing activities are calculated directly from inflows and outflows.

The changes in the Group's cash and cash equivalents are a result of the development of individual cash flows after taking exchange rate-related changes into account.

Cash and cash equivalents as presented in the cash flow statement include all cash items reported on the balance sheet, meaning that in addition to cash in the narrow sense – i.e. checks, cash on hand and bank balances – it also includes short-term investments which can be converted into cash at any time and are subject only to immaterial fluctuations in value. Cash and cash equivalents are measured at amortized cost.

Other non-cash transactions

Non-cash income and expenses relate particularly to unrealized foreign currency gains/losses, changes in the fair value of derivative financial instruments which affect profit or loss and other non-cash changes in financial liabilities.

Non-cash investing activities

In fiscal year 2010, the acquisition and initial consolidation of the joint venture companies resulted in an addition to assets of EUR 30,858 thousand.

Non-cash financing activities

In fiscal year 2010, the acquisition and initial consolidation of the joint venture companies resulted in an addition to financial liabilities of EUR 11,220 thousand.

33 // SEGMENT REPORTING

The Managing Board of HUGO BOSS AG manages the Company by geographic areas. This decision reflects its strategy based on increased international expansion. To underline this in the organization's structure, the position of Senior Vice President was created for each region. Senior Vice Presidents are responsible for the distribution companies in the three regions of Europe, America, and Asia/Pacific. The distribution companies of the HUGO BOSS Group are responsible for the sales of all HUGO BOSS products that are not sold as licensed products by third parties in their respective regions.

The segments subject to reporting requirements are therefore divided into the three regions of Europe, America, and Asia/Pacific as well as the Licenses segment and the remaining Group-wide central structures (Corporate Center).

The respective distribution companies of the HUGO BOSS Group are allocated to the Europe, America and Asia/Pacific segments subject to reporting requirements, while the Licenses segment separates out all of HUGO BOSS' licensing business, which includes the licensing business with third parties as well as the Group's licensing business. The purchasing, production, and research and development units as well as other central functions make up the Group-wide central functions.

The management of the regional business units is aligned to the respective operating results (EBITDA before special items). Income taxes are influenced by Group-wide decisions. Therefore no allocation of that figure is made to the operating segments.

Services between the operating segments are based on market prices, and thus are comparable with prices that would also be used for a transaction with a third party.

2010 in EUR thousand	**Europe**[1]	**Americas**	**Asia/ Pacific**	**Royalties**	**Corporate Center**	**Reconcilia-tion**	**HUGO BOSS Group**
Total sales	**1,074,594**	**380,947**	**230,389**	**120,947**	**992,911**	**(1,070,342)**	**1,729,446**
Inter-segment sales	1,416	199	14	75,802	992,911	(1,070,342)	0
External customer sales	1,073,178	380,748	230,375	45,145	0	0	1,729,446
Segment profit	**142,854**	**47,361**	**39,790**	**79,156**	**55,352**	**(14,732)**	**349,781**
Other interest and similar income	2,215	123	92	401	14,248	(13,796)	3,283
Interest and similar expenses	(5,340)	(3,676)	(2,843)	(652)	(21,778)	13,721	(20,568)
Assets	309,257	180,494	154,898	81,469	1,232,164	(663,798)	1,294,484
Liabilities	(173,033)	(98,296)	(99,844)	(52,969)	(922,078)	414,492	(931,728)
Capital expenditure	**17,444**	**10,323**	**15,877**	**6**	**11,934**	**0**	**55,584**
Depreciation/amorti-zation	(22,210)	(11,534)	(8,490)	(228)	(22,648)	0	(65,110)
Impairments	(3,803)	(2,615)	(86)	0	(596)	0	(7,100)
thereof tangible assets	(3,287)	(2,560)	(86)	0	(596)	0	(6,529)
thereof intangible assets	(516)	(55)	0	0	0	0	(571)
SAR expenses and hedging	(5,359)	(484)	(17)	(342)	(1,570)	0	(7,772)

1 Incl. Middle East and Africa

The profit in the respective segments corresponds to EBITDA before special items and therefore does not include the financial result (EUR –14,788 thousand), income taxes (EUR –59,927 thousand), and expenses due to special items (EUR –13,628 thousand), and the impairment losses and depreciation/amortization (EUR –72,210 thousand).

Segment assets do not include deferred tax assets (EUR 48,970 thousand) and current tax receivables (EUR 11,988 thousand), as these assets are managed at Group level.

Segment liabilities do not include deferred tax liabilities (EUR –24,878 thousand) and current tax payables (EUR –37,615 thousand), as these liabilities are managed at Group level.

2009 in EUR thousand	**Europe**[1]	**Americas**	**Asia/ Pacific**	**Royalties**	**Corporate Center**	**Reconcilia-tion**	**HUGO BOSS Group**
Total sales	**1,041,260**	**312,710**	**164,690**	**114,633**	**936,456**	**(1,007,886)**	**1,561,863**
Inter-segment sales	6	482	39	70,903	936,456	(1,007,886)	0
External customer sales	1,041,254	312,228	164,651	43,730	0	0	1,561,863
Segment profit[2]	**118,761**	**14,546**	**14,645**	**75,390**	**33,955**	**9,865**	**267,162**
Other interest and similar income	1,919	86	50	393	13,404	(14,172)	1,680
Interest and similar expenses	(7,196)	(3,718)	(2,162)	(315)	(24,860)	14,198	(24,053)
Assets	282,269	162,741	78,357	126,350	1,033,606	(680,931)	1,002,392
Liabilities	(216,461)	(119,471)	(68,969)	(28,350)	(897,943)	504,442	(826,752)
Capital expenditure	**15,288**	**11,567**	**6,234**	**11**	**15,237**	**0**	**48,337**
Depreciation/amortization	(21,480)	(10,999)	(3,758)	(225)	(25,238)	0	(61,700)
Impairments	(4,160)	(1,060)	(491)	0	(1,724)	0	(7,435)
thereof tangible assets	(1,170)	(1,060)	(491)	0	(1,724)	0	(4,445)
thereof intangible assets	(2,990)	0	0	0	0	0	(2,990)
SAR expenses and hedging	(1,198)	(600)	(101)	(61)	662	0	(1,298)

1 Incl. Middle East and Africa
2 Previous year value was adjusted. Please also refer to detailed explanations concerning Financial Group Statement.

The profit in the respective segments corresponds to EBITDA before special items and therefore does not include the financial result (EUR –18,778 thousand), income taxes (EUR –32,659 thousand), expenses due to special items (EUR –42,600 thousand), and the impairment losses and depreciation/amortization (EUR –69,135 thousand).

Segment assets do not include deferred tax assets (EUR 45,085 thousand) and current tax receivables (EUR 17,908 thousand), as these assets are managed at Group level.

Segment liabilities do not include deferred tax liabilities (EUR -16,449 thousand) and current tax payables (EUR -16,709 thousand), as these liabilities are managed at Group level.

Because of the homogeneity of the rest of the production range in the distribution segments Europe, America and Asia/Pacific, information on revenues is meaningful only in connection with the brands (as a "Group of similar products" within the meaning of IFRS 8.32). The brands and lines of the HUGO BOSS Group are BOSS Black, BOSS Selection, BOSS Orange, BOSS Green and HUGO. All of these distributed products are summarized under the term clothing/accessories. The share of sales of the individual brands and lines can be found in the Management Report in the chapter "Results of Operations in the Fiscal Year 2010".

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

34 // DISCLOSURE OF RELATED PARTY TRANSACTIONS

Related parties include all companies and persons that meet the definition of a related party as set forth in IAS 24.9 with respect to Permira Holdings Limited, Guernsey.

During the reporting period from January 1 to December 31, 2010, the following transactions with related parties took place that were subject to reporting requirements.

In fiscal year 2010, HUGO BOSS AG and Red & Black Holding GmbH, Oberursel (Taunus), the direct parent company of HUGO BOSS AG, concluded a service contract. This service contract includes the preparation of the quarterly and annual financial statements of Red & Black Holding GmbH, Oberursel (Taunus), for which HUGO BOSS AG receives appropriate annual compensation in line with the market of EUR 60 thousand.

In the period from January 1, 2010 to December 31, 2010, the Company entered into legal transactions in the form of deliveries of goods in the amount of EUR 22 thousand with Permira Holdings Limited, Guernsey, the ultimate parent company of the HUGO BOSS Group, and/or with its affiliated companies.

Senior management members are able to shop at HUGO BOSS as part of the benefits in kind granted to them as part of their salary and for personal use. Other than this, no significant transactions occurred between companies included in the HUGO BOSS Group and senior management members or their close relatives.

In 2008, HUGO BOSS AG also introduced the "Management Participation Program" (MPP for short), a form of share-based compensation for members of the top management. In the context of the MPP, managers can invest indirectly in Red & Black TopCo S.à r.l., Luxembourg, which represents a related party as set forth in IAS 24.9.

For further information, please see note (36).

35 // SUPERVISORY BOARD AND MANAGING BOARD

Members of the Supervisory Board and the Managing Board are listed on pages 235 to 238.

On the basis of a resolution passed by the Annual Shareholders' Meeting on June 21, 2010, information on individual compensation is not provided.

The Supervisory Board received total compensation of EUR 1,224 thousand for its services in 2009. For fiscal year 2010, total compensation is expected to be EUR 1.461 thousand, including a provision for the variable component of EUR 738 thousand (2009: EUR 695 thousand) calculated on the basis of earnings per share.

Compensation for members of the Managing Board in the fiscal year 2010 totaled EUR 3,248 thousand (2009: EUR 4,927 thousand). EUR 3,248 thousand of this amount (2009: EUR 2,642 thousand) relates to fixed components.

The annual variable components were removed in 2010 and amounted to EUR 0 thousand in 2010 (2009: EUR 2,285 thousand) due to the switch to variable compensation components with a medium-term incentive effect. The fixed salary components paid to members of the Managing Board comprise, besides the salary, benefits such as company cars and other benefits in kind forming part of the salary, as well as other equipment and services necessary for Managing Board members to fulfill their duties.

The variable compensation components with a long-term incentive effect consist of a multi-year bonus granted in line with the achievement of personal targets agreed with the Supervisory Board and the fulfillment of the pre-defined key figures EBITDA before special items and trade net working capital. This multi-year bonus will be calculated conclusively and paid out after the end of fiscal year 2012. Advance payments of the bonus expected in 2013 are made starting from 2011. If the amount of the outstanding payment in 2013 is negative, this must be repaid to HUGO BOSS AG by the Managing Board member. Additions to the provision for the multi-year bonus are made proportionally. A provision of EUR 3,025 thousand was recognized for fiscal year 2010 (2009: EUR 0 thousand).

Managing Board members holding office as of the reporting date are not eligible to participate in the "Stock Appreciation Rights Program". In the event of early or regular termination of their duties, Managing Board members are not entitled to payments.

Total compensation of EUR 2,934 thousand (2009: EUR 66 thousand) was paid out when Managing Board members left the Company.

In addition, the Company has provided pension benefits for Managing Board members. The amount of future pension benefits is based on each member's base salary and years of service. In 2010, additions to pension provisions for Managing Board members (excluding deferred compensation) amounted to EUR 1,964 thousand (2009: EUR 1,015 thousand). For active members of the Managing Board, provisions for pension obligations were recognized in the amount of EUR 2,849 thousand (2009: EUR 1,358 thousand). The corresponding plan assets in the form of reinsurance policies amounts to EUR 2,457 thousand (2009: EUR 1,845 thousand).

The pension obligations for the former members of the Managing Board and their surviving dependants amounted to EUR 2,694 thousand (2009: EUR 835 thousand). These people received total compensation during 2010 amounting to EUR 192 thousand (2009: EUR 191 thousand).

In total, members of the Managing Board and the Supervisory Board hold less than 1% (2009: less than 1%) of the shares issued by HUGO BOSS AG.

36 // SHARE-BASED PAYMENTS

"Stock Appreciation Rights Program"

During fiscal year 2001, HUGO BOSS AG introduced a "Stock Appreciation Rights Program" (SAR) for Managing Board members and executives.

As part of the "Stock Appreciation Rights Program", executives of HUGO BOSS AG and its subsidiaries are granted a certain number of participation rights. These rights enable them to benefit from any increase in the value of the Company's shares. The participation rights solely grant a claim to cash settlement, not a claim to HUGO BOSS AG shares.

In December 2009, the management at HUGO BOSS AG resolved to revise the general conditions applying to the "Stock Appreciation Rights Program" in order to avoid additional expenses for hedging instruments. For this reason, effective December 14, 2009, all eligible executives were offered the following program changes:

1 / Waiver of participation rights and all rights to tranches issued in the years from 2005 to 2008 against a compensation payment
2 / Adjustment of the exercise conditions of the tranche issued in 2009

The compensation payment for the waiver of the rights to tranches 5 to 8 corresponded to the sum of the option value of each tranche multiplied by the number of participation rights. The relevant option values were determined by external banks on behalf of HUGO BOSS AG using a standard valuation model on December 14, 2009. The reference value used for the share price was the unweighted average of the closing price of preferred shares of HUGO BOSS AG in Xetra trading on the Frankfurt Stock Exchange during the five trading days immediately preceding December 14, 2009.

To limit the effects arising from extraordinary, unforeseen upward and downward movements in the share price, both the minimum and the maximum gain possible per option exercised for the participation rights of tranche 9 were defined in the program change. This called for the compensation to be granted to be at least equal to the difference between the price calculated for a preferred share on the basis of HUGO BOSS AG's market capitalization in the last five trading days immediately preceding December 14, 2009 and the strike price of preferred shares upon issue, but at the most EUR 33.20. In addition, after the end of the vesting period the program change allowed eligible parties to exercise up to one third of the participation rights of tranche 9 early, effective December 14, 2009. The first time this was possible was December 14, 2009. In this case, the exercise gain corresponded to the minimum compensation defined above of EUR 11.77.

The program change permitted the extension of the holding period to three years, ending on December 31, 2011 (two years before the program change), with the exercise period being reduced correspondingly to two years, ending on December 14, 2013 (three-year exercise period before the program change). The overall term of tranche 9 issued in fiscal year 2009 remained unchanged at five years.

Following a continuous increase in the share price, the maximum gain possible per option exercised for the participation rights of tranche 9 was already exceeded in October 2010. Under the program modified in 2009, tranche 9 could be exercised in full for the first time starting from the beginning of 2012.

As the "Stock Appreciation Rights Program" causes considerable administrative expense in both the HR department and the Finance department of the HUGO BOSS Group, the management of HUGO BOSS AG resolved to terminate tranche 9 early and offered all holders of participation rights in tranche 9 a payout of the maximum gain possible per share exercised as of December 15, 2010. The early termination of the program does not result in any additional expenses provided the share price is EUR 45.00 or higher at the end of 2011, too. The expenses from the pro-rata additions to the provision for tranche 9 from 2011 are simply brought forward to 2010.

As of December 31, 2010, the price for preferred shares was EUR 56.50, significantly higher than the share price required for the maximum gain on exercise (EUR 45.00).

Participation rights for tranches 7 and 8 that are still held may continue to be exercised after the program change in 2010 under the regulations governing the original option conditions.

With the exception of the terminated tranche 9, the remaining tranches of the "Stock Appreciation Rights Program" have six-year terms. After the initial lock up period of two years, the four-year exercise period shall commence. Participation rights for tranches 5 to 8 that were still held could still be exercised after the program change in 2009 under the regulations governing the original option conditions.
If growth in HUGO BOSS AG market capitalization exceeds MDAX growth by 5 percentage points (exercise hurdle) at the expiry of the lock-up period or during the subsequent exercise period, participation rights in tranches 7 and 8 may be exercised.

The compensation to be paid corresponds to the difference between the market capitalization as reflected in the average price of a HUGO BOSS AG preferred share during the five trading days preceding the date of exercise and the strike price of the preferred share in line with the condition. The strike price corresponds to the average price of HUGO BOSS AG preferred shares during the 20 trading days preceding the date of issue.

In order to limit the risk arising from share price fluctuations in connection with the "Stock Appreciation Rights Program" (SAR), and hence the potential impact on the cash flow and earnings of HUGO BOSS AG, a corresponding hedging program was resolved in late 2007 to come into force from fiscal year 2008. Under the terms of this program, HUGO BOSS AG acquired term-equivalent U.S. call options for HUGO BOSS preferred shares from independent banks in the first quarter of fiscal year 2008. The subscription right is 1:1, i.e. each option corresponds to one preferred share. The total investment volume was just under EUR 33 million.

If the corresponding call options are sold back to the issuing bank when SARs are exercised by employees, the outflow of funds from the exercise of SARs is offset by an inflow of funds from the sale of the call options.

The obligations arising from the SARs for HUGO BOSS AG, which are recognized in the form of corresponding provisions, and the call options used for hedging are regularly recognized as income at their fair value at the respective reporting date. The measurement of the call options and SAR obligations is based on the market values provided by the issuing banks. As the values of the call options and the corresponding SARs are identical at the respective reporting date, the resulting earnings effects largely offset each other.

Changes in the value of SARs already in the exercise period and the corresponding hedging transactions are offset against personnel expenses.

As of December 31, 2010, the earnings effect of revaluations of SAR provisions and the valuation effect of the corresponding hedging transactions reported in personnel expenses amounted to EUR 7,626 thousand (2009: EUR 4,565 thousand).

The expenses reported in the financial result for the valuation and sale of hedging transactions for which SAR provisions have not yet been or are no longer recognized amounted to EUR 146 thousand (2009: Income of EUR 3,267 thousand).

For fiscal year 2010, this resulted in total expenses of EUR 7,772 thousand (2009: EUR 1,298 thousand) for the "Stock Appreciation Rights Program". The provision recognized for the participation rights amounted to EUR 2,647 thousand as of December 31, 2010 (2009: EUR 4,322 thousand). The provision for exercisable option rights amounted to EUR 2,647 thousand as of December 31, 2010 (2009: EUR 1,655 thousand). The derivatives that function as hedges recorded a fair value of EUR 2,512 thousand (2009: EUR 4,908 thousand) as of the reporting date.

On May 8, 2008, the majority of the Annual Shareholders' Meeting of HUGO BOSS AG resolved to distribute a special dividend. In terms of the currently valid exercise requirements of the SAR program, the SAR parameters were adapted to EUREX conditions. A so called R-factor of 87.24% was calculated, meaning the previous strike prices (100%) and quantities were adjusted by this factor. This results in the following adjusted strike prices:

	Tranche 5	**Tranche 6**	**Tranche 7**	**Tranche 8**
Date of Issue	February 2005	February 2006	January 2007	January 2008
Strike Price (EUR) pre special dividend	25.38	32.59	39.08	42.11
Strike Price (EUR) post special dividend	22.14	28.43	34.09	36.74

The "Stock Appreciation Rights Program" showed the following changes during 2010 and 2009:

	2010	**WASP 2010**[1] (EUR)	**2009**	**WASP 2009**[1] (EUR)
Number of SARs on Jan.1	1,169,665	27.31	2,602,910	32.80
Newly granted SARs	0	0.00	490,900	11.80
Forfeited SARs	0	0.00	0	0.00
Exercised SARs	(738,000)	32.49	(42,173)	17.02
Expired SARs	(48,076)	12.93	(808,244)	30.32
Replaced SARs	(265,496)	11.80	(1,073,728)	31.67
Number of SARs on Dec. 31	118,093	35.63	1,169,665	27.31
Number of SARs exercisable on Dec. 31	118,093	35.63	552,945	31.12

1 WASP= Weighted Average Strike Price.

The weighted average stock price at the time the options were exercised was EUR 46.30 (2009: EUR 21.76).

The weighted average contract term for the outstanding share options as of December 31, 2010 amounted to 2.59 years (2009: 3.33 years).

The strike prices for the stock appreciation rights outstanding as of the end of the reporting period ranged between EUR 34.09 and EUR 36.74 (2009: EUR 11.80 and EUR 36.74).

In the current fiscal year, payments to eligible executives in the amount of EUR 18,999 thousand were made in connection with the "Stock Appreciation Rights Program" (2009: EUR 4,509 thousand). EUR 8,814 thousand of this amount relates to the final termination of units of tranche 9 at the maximum possible gain on exercise of EUR 33.20.

Management Participation Program

In the context of the "Management Participation Program" (for short: MPP), which was introduced in 2008, members of the Managing Board and second-tier executives could invest indirectly in Red & Black TopCo S.à r.l. by making a payment. Since the restructuring at the end of 2009, Red & Black TopCo S.à r.l. has held 100% of the shares of Valentino Fashion Group S.p.A. directly. In addition to the indirect investment in HUGO BOSS, the management at HUGO BOSS AG invested not only in the HUGO BOSS Group, but also in other companies of the Valentino Fashion Group not controlled or influenced by HUGO BOSS.

The indirect investment in Red & Black TopCo S.à r.l is carried out via a German limited partnership with Red & Black Management Beteiligungs GmbH & Co. KG (for short: MPP KG). MPP KG has an interest of 0.07% in the voting capital of Red & Black TopCo S.à r.l. and thus holds so-called "Class D shares". The company agreement was signed for an indefinite period of time, but at least until the end of 2024. The legal status of MPP KG managers is regulated in the company agreement. The maximum investment in MPP KG is determined individually. The managers are registered in the commercial register as limited partners of MPP KG.

At the end of 2010, the MPP for managers already participating ("old managers") was modified and managers who were not yet participating ("new managers") were again offered a participation in MPP KG.

The new managers acquired shares in the MPP KG limited partnership in December 2010 at the current market value. The old managers continue to hold the shares in MPP KG that they acquired already in 2008. Shares in MPP KG held by the old managers are neither exchanged nor sold.

Following the restructuring of the MPP in the event of an IPO or sale of the HUGO BOSS Group ("exit"), the management of HUGO BOSS is to participate only in the exit profits attributable to HUGO BOSS ("HB AG profits") via MPP KG. All profits and costs attributable to the Valentino Fashion Group S.p.A. are neutralized when calculating the HB AG profits. The participation right in these HB AG profits arises pro-rata over a multi-year vesting period ending on December 31, 2014.

As part of the modification of the MPP, the subordination to individual financing instruments and the ratchet of these Class D shares no longer apply. The restructuring with regard to the Articles of Association created so-called liquidation preferences. These give priority for certain capital before distribution of the HB AG profits to the limited partners and create financial compensation for the investors for the decline in value of the Class D shares as compared to the current market value which has since occurred.

If MPP shares attributable to a manager are sold as part of an exit, he is entitled to a proportionate amount of the HB AG profits generated after deduction of liabilities and liquidation preferences. The manager's entitlement to the payout of his portion of the remaining sales proceeds is linked to the manager in question not having left the HUGO BOSS Group at the time of the exit. Limits on the entitlement to payouts of the pro-rata portion of sales proceeds only exist for managers who leave the Company before an exit. If a manager leaves the Company before the exit, Red & Black TopCo S.à r.l has the right to acquire the shares held by the manager in question. The manager leaving is qualified as a so-called "good leaver" or "bad leaver" during the determination of the acquisition price.

As shareholders of the Red & Black TopCo S.à r.l, the members of the Managing Board and second-tier executives are entitled to receive future sales proceeds from exit events as well as profit distributions. Under the circumstances described before, no personnel expenses will affect HUGO BOSS' profit or loss.

The MPP did not influence the profit or loss for the period of the HUGO BOSS Group in fiscal year 2010, as no transactions that would have needed to be measured at fair value have been carried out since MPP was established. As a result of the MPP, no financial assets or liabilities were recognized as of the reporting date of December 31, 2010.

37 // EVENTS AFTER THE BALANCE SHEET DATE

On February 7, 2011, HUGO BOSS announced its intention to acquire 15 HUGO BOSS monobrand stores and the associated fixed assets from Moss Bros, its most important franchise partner in the UK. In addition to eight locations in London and two stores in Manchester, the acquisition also includes a location each in five other English cities. Depending on certain conditions, the transaction will become effective as of April 1, 2011. As a result of the acquisition of these locations, the number of directly operated stores and thus the share of sales of directly operated retail business in the UK was increased further. The agreed purchase price payment for the acquisition of the locations and the associated fixed assets amounted to EUR 19.5 million (GBP 16.5 million). The Group expects the integration of the locations to have a positive impact on the sales and earnings development in the period from April to December 2011.

Between the end of the fiscal year 2010 and the approval for publication of this report on March 8, 2011 there were no further significant macroeconomic, socio-political, sector-related or company-specific changes that the management expects will have a material influence on the results of operations, net assets and financial position of the Company.

38 // CORPORATE GOVERNANCE CODE

The Managing and Supervisory Board of HUGO BOSS AG submitted the declaration of compliance prescribed by Section 161 of the German Stock Corporation Act (AktG) in December 2010. The declaration is available to shareholders on the Company's website.

39 // AUDITOR'S FEE

The auditor's fee for fiscal year 2010 amounted to EUR 723 thousand (2009: EUR 636 thousand), of which EUR 588 thousand (2009: EUR 512 thousand) related to audit services, EUR 79 thousand (2009: EUR 37 thousand) to tax advisory services, and EUR 56 thousand (2009: EUR 87 thousand) to other certification or assessment services.

This information on the auditor's fee refers to the auditors of the consolidated financial statements and the KPMG companies in Germany and abroad associated with them via KPMG Europe LLP.

40 // LIST OF SHAREHOLDINGS

(in EUR thousand) Company	Head Office	Earnings 2010	Earnings 2009	Equity 2010	Equity 2009
HUGO BOSS Holding Netherlands B.V.	Amsterdam, Netherlands	475	50	652,185	651,709
HUGO BOSS Internationale Beteiligungs-GmbH[2]	Metzingen, Germany	0	0	524,800	524,800
HUGO BOSS AG	Metzingen, Germany	54,903	56,875	486,209	494,417
HUGO BOSS International B.V.	Amsterdam, Netherlands	102,845	75,261	279,604	174,622
HUGO BOSS Trade Mark Management GmbH & Co. KG[2]	Metzingen, Germany	74,002	74,162	25,230	24,120
HUGO BOSS Ticino S.A.	Coldrerio, Switzerland	42,826	33,791	74,034	60,894
HUGO BOSS USA, Inc.[4]	Wilmington, DE, USA	14,483	(5,365)	56,970	39,504
HUGO BOSS Hong Kong Ltd.	Hong Kong	16,134	7,676	38,018	21,852
HUGO BOSS Lotus Hong Kong Ltd.[3]	Hong Kong	(142)	0	37,801	0
HUGO BOSS Benelux B.V.	Amsterdam, Netherlands	15,239	16,452	37,702	38,463
Shenzhen Lotus Trading Co., Ltd.[3]	Shenzhen, China	5,426	0	27,570	0
HUGO BOSS Italia S.p.A.	Milan, Italy	535	(5,488)	22,233	8,144
HUGO BOSS International Markets AG	Zug, Switzerland	14,757	12,760	18,443	17,586
HUGO BOSS Canada, Inc.	Toronto, Canada	2,263	(2,277)	16,471	12,459
HUGO BOSS UK Ltd.	London, Great Britain	10,791	8,998	14,622	12,751
HUGO BOSS Textile Industry Ltd.	Izmir, Turkey	1,200	(453)	14,197	12,997
HUGO BOSS Holdings Pty. Ltd.	Preston, Australia	0	0	12,363	12,363
HUGO BOSS Australia Pty. Ltd.	Preston, Australia	1,279	1,385	11,870	10,022
HUGO BOSS China Retail Co. Ltd.	Shanghai, China	4,119	(212)	8,068	1,261
Lotus Concept Trading (Macau) Co., Ltd.[3]	Macau	3,111	0	6,530	0
HUGO BOSS Shoes & Accessories Italia S.p.A.	Morrovalle, Italy	237	(3,252)	5,202	4,965
HUGO BOSS Mexico S.A. de C.V.	Mexico City, Mexico	2,822	427	5,190	2,053
HUGO BOSS (Schweiz) AG	Zug, Switzerland	3,840	4,118	4,324	4,328
HUGO BOSS Nordic ApS	Copenhagen, Denmark	3,224	1,648	4,236	1,016
HUGO BOSS do Brasil Ltda.	São Paulo, Brazil	348	102	4,149	3,340
HUGO BOSS France SAS	Paris, France	(8,929)	(120)	3,505	12,435
HUGO BOSS Belgium Retail BVBA	Diegem, Belgium	664	732	2,627	1,962
HUGO BOSS Switzerland Retail AG	Zurich, Switzerland	561	129	2,359	1,466
HUGO BOSS Belgium BVBA	Diegem, Belgium	750	870	2,343	2,292
HUGO BOSS Guangdong Trading Co. Ltd.	Guangzhou, China	96	268	1,937	1,650
HUGO BOSS Benelux Retail B.V.	Amsterdam, Netherlands	220	790	1,893	1,674
HUGO BOSS Dienstleistungs GmbH[2]	Metzingen, Germany	(164)	(44)	1,458	1,382
HUGO BOSS Holding Sourcing S.A.	Coldrerio, Switzerland	(9)	(10)	1,250	1,219

(in EUR thousand)

Company	Head Office	Earnings 2010	Earnings 2009	Equity 2010	Equity 2009
MSC Poland Sp.z.o.o.	Radom, Poland	(54)	(192)	1,216	1,231
HUGO BOSS Scandinavia AB	Stockholm, Sweden	(1,921)	305	1,117	2,896
HUGO BOSS Magazacilik Ltd. Sti.	Izmir, Turkey	(563)	(176)	979	345
HUGO BOSS Mexico Management Services S.A. de C.V.	Mexico City, Mexico	144	123	551	357
HUGO BOSS Trade Mark Management Verwal-tungs-GmbH[2]	Metzingen, Germany	1	1	32	31
HUGO BOSS Merchandise Management GmbH	Metzingen, Germany	0	0	24	24
HUGO BOSS Vermögensverwaltungs GmbH & Co. KG[2]	Metzingen, Germany	(2)	(2)	2	4
HUGO BOSS Ireland Ltd.	Dublin, Ireland	(215)	0	(115)	0
HUGO BOSS Beteiligungsgesellschaft mbH[2]	Metzingen, Germany	0	0	(116)	(116)
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dieselstraße KG[1]	Grünwald, Germany	47	33	(191)	(238)
GRAMOLERA Grundstücks-Vermietungsgesell-schaft Objekt Ticino mbH[2]	Metzingen, Germany	(1,117)	(769)	(1,861)	(744)
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Metzingen KG[1]	Grünwald, Germany	84	24	(2,739)	(2,823)
HUGO BOSS Portugal & Companhia	Lisbon, Portugal	(2,419)	(5,619)	(2,952)	(4,833)
HUGO BOSS Benelux B.V. CIA S.C	Madrid, Spain	2,720	(12,705)	(5,457)	(33,177)
BIL Leasing Verwaltungs-GmbH & Co. 869 KG[1]	Pullach, Germany	(537)	(276)	(6,015)	(5,479)
HUGO BOSS Japan K.K.	Tokyo, Japan	(3,843)	(11,671)	(31,108)	(22,021)

1 Investments with an equity share of 94%

2 Subsidiaries that make use of the exemption pursuant to Section 264 Paragraph 3 and Section 264b, respectively of the German Commercial Code (HGB) from publishing the financial statements.

3 Investments with an direkt and indirect equity share of 60%.

4 Subgroup financial statements.

INFORMATION CONCERNING THE MAJORITY SHAREHOLDER

- On October 17, 2005, HUGO BOSS AG received the following notification from V.F.G. International N.V., Amsterdam, 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 changed its name from Marzotto International N.V. to V.F.G. International N.V. We continue to hold 78.76% of the voting share capital."

  Metzingen, October 2005
  The Managing Board

- On August 8, 2007, HUGO BOSS AG received from the following companies and individuals the following correction of the notifications on voting rights dated August 3, 2007 pursuant to Section 21 Paragraph 1 and Section 22 of the German Securities Trading Act (WpHG).

7. Red & Black HoldCo S.à r.l.
Red & Black HoldCo S.à r.l. notified us of the following:
The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Red & Black HoldCo S.à r.l., Luxembourg (address: 282, route de Longwy, L -1940 Luxembourg), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Red & Black HoldCo S.à r.l. as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Red & Black HoldCo S.à r.l. indirectly via Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Red & Black HoldCo S.à r.l. as a result of the own shares held by HUGO BOSS AG indirectly via Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

8. Red & Black HoldCo 2 S.à r.l.
Red & Black HoldCo 2 S.à r.l. notified us of the following:
The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Red & Black HoldCo 2 S.à r.l., Luxembourg (address: 282, route de Longwy, L -1940 Luxembourg), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Red & Black HoldCo 2 S.à r.l. as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Red & Black HoldCo 2 S.à r.l. indirectly via Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Red & Black HoldCo 2 S.à r.l. as a result of the own shares held by HUGO BOSS AG indirectly via Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

9. P4 Sub L.P.1

P4 Sub L.P.1 notified us of the following:

The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by P4 Sub L.P.1, Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to P4 Sub L.P.1 as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by P4 Sub L.P.1 indirectly via Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to P4 Sub L.P.1 as a result of the own shares held by HUGO BOSS AG indirectly via Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V., pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

10. Permira IV L.P.1

Permira IV L.P.1 notified us of the following:

The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Permira IV L.P.1, Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Permira IV L.P.1 as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Permira IV L.P.1 indirectly via P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Permira IV L.P.1 as a result of the own shares held by HUGO BOSS AG indirectly via P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

11. Permira IV Managers L.P.

Permira IV Managers L.P. notified us of the following:

The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Permira IV Managers L.P., Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Permira IV Managers L.P. as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Permira IV Managers L.P. indirectly via Permira IV L.P.1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Permira IV L.P.2, Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l, Red & Black S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Permira Managers IV L.P. as a result of the own shares held by HUGO BOSS AG indirectly via Permira IV L.P.1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Permira IV L.P.2, Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

12. Permira IV Managers Limited

Permira IV Managers Limited notified us of the following:

The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Permira IV Managers Limited, Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Permira IV Managers Limited as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Permira IV Managers Limited indirectly via Permira IV Managers L.P., Permira IV L.P.1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Permira IV L.P.2, Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Permira Managers IV Limited as a result of the own shares held by HUGO BOSS AG indirectly via Permira Managers IV L.P., Permira IV L.P.1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Permira IV L.P.2, Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

13. Permira IV L.P.2

Permira IV L.P.2 notified us of the following:

The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Permira IV L.P.2, Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Permira IV L.P.2 as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Permira IV L.P. 2 indirectly via Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Permira IV L.P.2 as a result of the own shares held by HUGO BOSS AG indirectly via Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

14. P4 Co-Investments L.P.

P4 Co-Investments L.P. notified us of the following:

The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by P4 Co-Investments L.P., Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to P4 Co-Investments L.P. as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by P4 Co- Investments L.P. indirectly via Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to P4 Co-Investments L.P. as a result of the own shares held by HUGO BOSS AG indirectly via Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

15. Permira Investments Limited

Permira Investments Limited notified us of the following:

The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Permira Investments Limited, Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Permira Investments Limited as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, Pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Permira Investments Limited indirectly via Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Permira Investments Limited as a result of the own shares held by HUGO BOSS AG indirectly via Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

16. Permira IV GP L.P.

Permira IV GP L.P. notified us of the following:
The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Permira IV GP L.P., Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Permira IV GP L.P. as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Permira IV GP L.P. indirectly via Permira IV L.P.1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Permira IV L.P.2, P4 Co-Investments L.P., Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Permira IV GP L.P. as a result of the own shares held by HUGO BOSS AG indirectly via Permira IV L.P. 1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Permira IV L.P.2, P4 Co-Investments L.P., Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

17. Permira IV GP Limited

Permira IV GP Limited notified us of the following:
The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Permira IV GP Limited, Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Permira IV GP Limited as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Permira IV GP Limited indirectly via Permira IV GP L.P., Permira IV L.P.1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Permira IV L.P.2, P4 Co-Investments L.P., Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Permira IV GP Limited as a result of the own shares held by HUGO BOSS AG indirectly via Permira IV GP L.P., Permira IV L.P.1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Red & Black Topco 2 S.à r.l., Red & Black Lux 2 S.à r.l., Red & Black 2 S.r.l., Permira IV L.P.2, P4 Co-Investments L.P., Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

18. Permira Nominees Limited

Permira Nominees Limited notified us of the following:
The share of voting rights in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, held by Permira Nominees Limited, Guernsey (address: Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands), exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% on August 2, 2007. The share of voting rights now amounts to 80.23% (28,770,683 voting rights), of which a share of 78.76% (28,242,128 voting rights) is attributable to Permira Nominees Limited as a result of the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act. V.F.G. International N.V. is controlled by Permira Nominees Limited indirectly via Permira Investments Limited, Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., and Valentino Fashion Group S. p. A., Milan, Italy. A further share of voting rights amounting to 1.47% (528,555 voting rights) is attributable to Permira Nominees Limited as a result of the own shares held by HUGO BOSS AG indirectly via Permira Investments Limited, Red & Black HoldCo S.à r.l., Red & Black Topco S.à r.l., Red & Black Lux S.à r.l., Red & Black S.r.l., Valentino Fashion Group S. p. A., and V.F.G. International N.V. pursuant to Section 22 Paragraph 1 sentence 1 No. 1 in conjunction with sentence 3 of the Securities Trading Act.

- On March 14, 2008, HUGO BOSS was notified of the following voting rights announcement pursuant to section 21 paragraph 1 and section 22 WpHG (German Securities Trading Act) of the entities mentioned in the following:

  "On March 11, 2008 Red & Black 2 S.r.l., Milan (Address: via San Paolo 10, 20121 Milan, Italy) was merged into Red & Black S.r.l., Milan (Address: via San Paolo 10, 20121 Milan, Italy). Thereby Red & Black 2 S.r.l. has lapsed. Legal successor is Red & Black S.r.l. Against the background of the above mentioned merger we inform you in the name and by order of Red & Black S.r.l., Milan (Address: via San Paolo 10, 20121 Milan, Italy) pursuant to 21 paragraph 1, 22 WpHG (German Securities Trading Act) about the following:

  As legal successor of Red & Black S.r.l. 2, Milan (address: via San Paolo 10, 20121 Milan, Italy): The proportion of voting rights of Red & Black S.r.l. 2, Milan (address: via San Paolo 10, 20121 Milan, Italy), held in HUGO BOSS AG, Dieselstraße 12, 72555 Metzingen, Germany, fell below the limits of 75%, 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% on March 11, 2008 and has stood at 0.00% since this day (no voting rights).
  For the company itself: The proportion of voting rights of Red & Black S.r.l., Milan (address: via San Paolo 10, 20121 Milan, Italy), held in HUGO BOSS AG, Dieselstraße 12, 72555 Metzingen, Germany, continues to amount to more than 75% of the voting rights as of March 11, 2008, namely 89.49% of voting rights (32,092,026 voting rights). A proportion of voting rights of 88.02% (31,563,471 voting rights) shall be attributable to Red & Black S.r.l. from the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act). V.F.G. International N.V. is a company controlled indirectly by Red & Black S.r.l. via Valentino Fashion Group S.p.A., Milan, Italy. A further proportion of voting rights of 1.47% (528,555 voting rights) shall be attributable to Red & Black S.r.l. from the own shares held by HUGO BOSS AG pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act)."

  Metzingen, March 14, 2008
  The Managing Board

- On March 25, 2008, HUGO BOSS was notified of the following voting rights announcements pursuant to section 21 paragraph 1 and section 22 WpHG (German Securities Trading Act) of Red & Black S.p.A.:
  Red & Black S.r.l, Milan, Italy has been converted in Red & Black S.p.A. Milan, Italy. Also after the effectiveness of the conversion of form on March 19, 2008 the company Red&Black S.p.A. held in HUGO BOSS AG, Metzingen, Germany voting rights of more than 75%. With effect of the conversion of form on March 19, 2008 the proportion of the voting rights of Red & Black S.p.A. Milan, Italy, held in HUGO BOSS AG, Metzingen, Germany is 89.49% (32,092,026 voting rights). Thereof the proportion of voting rights of 88.02% (31,563,471 voting rights) shall be attributable to Red & Black S.p.A. from shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act). V.F.G. International N.V. is a company controlled indirectly by Red & Black S.p.A. via Valentino Fashion Group S.p.A., Milan, Italy. A further proportion of voting rights of 1.47% (528,555 voting rights) shall be attributable to Red & Black S.r.l. from the own shares held by HUGO BOSS AG pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act).

  Metzingen, March 26, 2008
  The Managing Board

- On April 23, 2008, HUGO BOSS was notified of the following voting rights announcements pursuant to section 21 paragraph 1 and section 22 WpHG (German Securities Trading Act) of Red & Black TopCo S.à r.l., Luxembourg as of Red & Black Lux S.à r.l., Luxembourg.
  On April 21, 2008 Red & Black TopCo 2 S.à r.l., Luxembourg was merged into Red & Black TopCo S.à r.l., Luxembourg. Also on April 21, 2008, in a second step, Red & Black Lux 2 S.à r.l., Luxembourg was merged into Red & Black Lux S.à r.l., Luxembourg. Thereby Red & Black TopCo 2 S.à r.l. and Red & Black Lux 2 S.à r.l. have lapsed. Legal successor of Red & Black TopCo 2 S.à r.l. is Red & Black TopCo S.à r.l.; Legal successor of Red & Black Lux 2 S.à r.l. is Red & Black Lux S.à r.l. Against the background of the above mentioned merger Red & Black TopCo S.à r.l. as well as Red & Black Lux S.à r.l. inform pursuant to section 21 paragraph 1, 22 WpHG (German Securities Trading Act) about the following:

  1. Red & Black TopCo S.à r.l., as legal successor of Red & Black TopCo 2 S.à r.l., Luxembourg: The proportion of voting rights of Red & Black TopCo 2 S.à r.l., Luxembourg held in HUGO BOSS AG, Dieselstraße 12, 72555 Metzingen, Germany, fell below the limits of 75%, 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% on April 21, 2008 and has stood at 0.00% since this day (no voting rights).

For the company itself: The proportion of voting rights of Red & Black TopCo S.à r.l., Luxembourg held in HUGO BOSS AG, Metzingen, Germany, continues to amount to more than 75% of the voting rights as of April 21, 2008, namely 89.49% of voting rights (32,092,026 voting rights). A proportion of voting rights of 88.02% (31,563,471 voting rights) shall be attributable to Red & Black TopCo S.à r.l. from the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act). V.F.G. International N.V. is controlled by Red & Black TopCo S.à r.l. indirectly via Red & Black Lux S.à r.l., Luxembourg, Red & Black S.p.A., Milan, Italy, and Valentino Fashion Group S.p.A., Milan, Italy. A further proportion of voting rights of 1.47% (528,555 voting rights) shall be attributable to Red & Black TopCo S.à r.l. from the own shares held by HUGO BOSS AG pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act).

2. Red & Black Lux S.à r.l., as legal successor of Red & Black Lux 2 S.à r.l., Luxembourg: The proportion of voting rights of Red & Black Lux 2 S.à r.l., Luxembourg held in HUGO BOSS AG, Metzingen, Germany, fell below the limits of 75%, 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% on April 21, 2008 and has stood at 0.00% since this day (no voting rights).
For the company itself: The proportion of voting rights of Red & Black Lux S.à r.l., Luxembourg held in HUGO BOSS AG, Metzingen, Germany, continues to amount to more than 75% of the voting rights as of April 21, 2008, namely 89.49% of voting rights (32,092,026 voting rights). A proportion of voting rights of 88.02% (31,563,471 voting rights) shall be attributable to Red & Black Lux S.à r.l. from the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act). V.F.G. International N.V. is controlled by Red & Black Lux S.à r.l. indirectly via Red & Black S.p.A., Milan, Italy, and Valentino Fashion Group S.p.A., Milan, Italy. A further proportion of voting rights of 1.47% (528,555 voting rights) shall be attributable to Red & Black Lux S.à r.l. from the own shares held by HUGO BOSS AG pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act).

Metzingen, April 24, 2008
The Managing Board

- On May 2, 2008, HUGO BOSS was notified of the following voting rights announcements pursuant to section 21 paragraph 1 and section 22 WpHG (German Securities Trading Act) of Valentino Fashion Group S.p.A., Milan, Italy (until May 1, 2008 trading under the name of Red & Black S.p.A., Milan, Italy), registered in the company register Milan on June 26, 2007 under the number 05786030964:
  1. On May 1, 2008 Valentino Fashion Group S.p.A., Milan, Italy registered in the company register on February 15, 2005 under the number 047403870962 (hereinafter referred to as "Valentino Old") was merged into Red & Black S.p.A., Milan, Italy. Thereby Valentino Old has lapsed. Legal successor is Red & Black S.p.A., Milan, Italy.
  2. In the course of the above mentioned merger the company Red & Black S.p.A. was renamed Valentino Fashion Group S.p.A. (hereinafter referred to as "Valentino New") on May 1, 2008.
  3. Against the background of the above mentioned merger and renaming, Valentino New pursuant to section 21 paragraph 1 and section 22 WpHG makes the following notification:

  As the legal successor of Valentino Old: The proportion of voting rights of Valentino Old held in HUGO BOSS AG, Dieselstraße 12, 72555 Metzingen, Germany, fell below the limits of 75%, 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% on May 1, 2008 and has stood at 0.00% since this day (no voting rights).
  For the company itself: The proportion of voting rights of Valentino New held in HUGO BOSS AG, Dieselstraße 12, 72555 Metzingen, Germany, continues to amount to more than 75% of the voting rights as of May 1, 2008, namely 89.49% of voting rights (32,092,026 voting rights). A proportion of voting rights of 88.02% (31,563,471 voting rights) shall be attributable to Valentino New from the shares held by V.F.G. International N.V., Amsterdam, Netherlands, pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act). V.F.G. International N.V. is a company controlled by Valentino New. A further proportion of voting rights of 1.47% (528,555 voting rights) shall be attributable to Valentino New from the own shares held by HUGO BOSS AG pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act).

  Metzingen, May 2, 2008
  The Managing Board

- On August 6, 2008, HUGO BOSS AG received from the following companies the following notifications on voting rights pursuant to Section 21, Paragraph 1 and Section 22 of the German Securities Trading Act (WpHG):
  The proportion of voting rights of Permira Holdings LLP, London, UK, held in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, exceeded the limits of 75%, 50%, 30%, 25%, 20%, 15%, 10%, 5% und 3% on August 04, 2008 and has stood at 89.49% of the voting rights since this day (32,092,026 shares). A proportion of voting rights of 88.02% (31,563,471 voting rights) of the shares held by V.F.G. International N.V. is attributable to Permira Holdings LLP, pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act). V.F.G. International N.V. is a company controlled by Permira Holdings LLP indirectly via Permira Holdings Limited, Permira IV Managers Limited, Permira IV Managers L.P., Permira IV GP Limited, Permira IV GP L.P., Permira IV L.P.1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Permira IV L.P.2, P4 Co-Investments L.P., Permira Investments Limited, Permira Nominees Limited, Red & Black HoldCo S.à r.l., Red & Black TopCo S.à r.l., Red & Black Lux S.à r.l. and Valentino Fashion Group SpA. A further proportion of voting rights of 1.47% (528,555 shares) is attributable to Permira Holdings LLP of the own shares held by HUGO BOSS AG via Permira Holdings Limited, Permira IV Managers Limited, Permira IV Managers L.P., Permira IV GP Limited, Permira IV GP L.P., Permira IV L.P.1, P4 Sub L.P.1, Red & Black HoldCo 2 S.à r.l., Permira IV L.P.2, P4 Co-Investments L.P., Permira Investments Limited, Permira ominees Limited, Red & Black HoldCo S.à r.l., Red & Black TopCo S.à r.l., Red & Black Lux S.à r.l., Valentino Fashion Group S.p.A and V.F.G. International N.V. pursuant to section 22 paragraph 1 sentence 1 no. 1 in conjunction with sentence 3 WpHG (German Securities Trading Act).

  Metzingen, August 7, 2008
  The Managing Board

- On September 24, 2009, HUGO BOSS AG received from the following companies the following notifications on voting rights pursuant to Section 21, Paragraph 1 and Section 22 of the German Securities Trading Act (WpHG):
  The proportion of voting rights of Permira Holdings LLP, London, UK, held in HUGO BOSS AG, Dieselstrasse 12, 72555 Metzingen, Germany, fell below the limits of 75%, 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% on September 21, 2009 and now stands at 0.00% (no voting rights).
  For clarification, please note that the proportion of voting rights of all other companies for which their current proportion of voting rights subject to reporting requirements that have up to now been attributable to HUGO BOSS AG remain unaffected by the fact that the party obligated to report has gone below the limits as reported above. Permira Holdings Limited, and not Permira Holdings LLP, is now the controlling company in the existing structure.

  Metzingen, September 25, 2009
  The Managing Board

- On December 23, 2009, HUGO BOSS AG received from the following companies the following notifications on voting rights pursuant to Section 21, Paragraph 1 and Section 22 of the German Securities Trading Act (WpHG):

  1. Valentino Fashion Group S.p.A.
  Valentino Fashion Group S.p.A., Milan, Italy, notified us of the following: We, the Valentino Fashion Group S.p.A., hereby inform you pursuant to section 21 paragraph 1 WpHG (German Securities Trading Act) that on December 23, 2009 our proportion of voting rights held in HUGO BOSS AG went below the limits of 75%, 50%, 30%, 25%, 20%, 15%, ,10%, 5% and 3% and now amounts to 0.00% (0 voting rights). For clarification, please note that the proportion of voting rights of all other companies to which their current proportion of Valentino Fashion Group S.p.A. voting rights attributable to HUGO BOSS AG shares remain unaffected by the fact that the Valentino Fashion Group S.p.A. has gone below the limits as reported above. Permira Holdings Limited remains the controlling company in the existing structure.

  2. Blitz F09-vier-sechs GmbH
  Blitz F09-vier-sechs GmbH, Frankfurt/Main, Germany, notified us of the following:
  We, Blitz F09-vier-sechs GmbH, hereby inform you pursuant to section 21 paragraph 1 WpHG (German Securities Trading Act) that on December 23, 2009 our proportion of voting rights held in HUGO BOSS AG exceeded the limits of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% and now stands at 89.49% (32,092,026 voting rights).
  A proportion of voting rights of 88.02% (31,563,471 voting rights) shall be attributable to Blitz F09-vier-sechs GmbH from the shares held by V.F.G. INTERNATIONAL N.V., Rotterdam, Netherlands, pursuant to section 22 paragraph 1 sentence 1 no. 1 WpHG (German Securities Trading Act).
  A further proportion of voting rights of 1.47% (528,555 voting rights) shall be attributable to Blitz F09-viersechs GmbH from the own shares held by HUGO BOSS AG pursuant to section 22 paragraph 1 sentence 1 no. 1 in WpHG (German Securities Trading Act). For clarification: The above voting rights limits were exceeded because of an internal Group restructuring. Permira Holdings Limited remains the controlling company in the existing structure.

  Metzingen, December 28, 2009
  The Managing Board

- On March 24, 2010, HUGO BOSS AG was notified of the following voting rights announcements pursuant to section 21 paragraph 1 and section 22 WpHG (German Securities Trading Act) of the entities mentioned in the following:

  1. V.F.G. International N.V., Amersfoort, Netherlands:
  On March 23, 2010 the proportion of voting rights of V.F.G. International N.V., Amersfoort, Netherlands held in HUGO BOSS AG has gone below the limits of 75%, 50%, 30%, 25%, 20%, 15%, 10%, 5% und 3% and amounts to 0,00% (no shares) on this day.

  2. Red & Black Holding GmbH (formerly Blitz F09-vier-sechs GmbH), München, Germany:
  On March 23, 2010 the proportion of voting rights of (formerly Blitz F09-vier-sechs GmbH), München, Germany held in HUGO BOSS AG, Metzingen, Deutschland, amounts still to more than 75% of the voting rights, namely 89,49% of the voting rights (32.092.026 shares). Thereof a proportion of voting rights of 88,02% (31.563.471 shares) of Red & Black Holding GmbH pursuant to § 21 Abs. 1 WpHG are held directly.
  A further proportion of voting rights of 1,47% (528,555 shares), own shares held by HUGO BOSS AG, pursuant to section 22 paragraph 1 sentence 1 No. 1 WpHG, shall be attributable to Red & Black Holding GmbH.
  For clarification it is mentioned that the proportions of voting rights of all other companies, of which their former proportion of voting rights with HUGO BOSS AG has been attributed to V.F.G. International N.V., are unaffected by the shortfall of the above mentioned limits of V.F.G. International N.V.. The controlling company in the existing structure remains Permira Holdings Limited.

  Metzingen, March 26, 2010
  The Managing Board

  Apart from that, no other shareholders have reported holdings equivalent to more than 10% of the voting rights. Moreover, the Company received no other new reports of shareholdings of 3% or more of the voting rights in HUGO BOSS AG.

MANAGING BOARD

CLAUS-DIETRICH LAHRS Stuttgart, Germany	Chairman of the Managing Board Responsible for Distribution, Retail, Licenses, Communication and Global Replenishment
CHRISTOPH AUHAGEN Ratingen, Germany	Responsible for Brand Management, Creative Management, Sourcing and Manufacturing
MARK LANGER Stuttgart, Germany	Responsible for Controlling, Investor Relations, Finance, Legal, Human Resources, Logistics and IT Director for Labor Relations Member of the Managing Board since January 15, 2010
DR. ANDREAS STOCKERT Stuttgart, Germany	Responsible for Purchasing, Production and Logisitcs Member of the Managing Board until August 6, 2010
NORBERT UNTERHARNSCHEIDT Ulm, Germany	Responsible for Controlling, Finance, Legal Affairs, Human Resources and IT Director for Labor Relations Member of the Managing Board until January 15, 2010

SUPERVISORY BOARD

DR. HELLMUT ALBRECHT Munich, Germany	Management Consultant Chairman of the Supervisory Board
ANTONIO SIMINA Metzingen, Germany	Tailor/Chairman of the Works Council HUGO BOSS AG, Metzingen, Germany Deputy Chairman of the Supervisory Board Employee representative
GIANLUCA ANDENA Lodi, Italy	Managing Director Permira Associati S.p.A., Milan, Italy until February 20, 2010
GERT BAUER Reutlingen, Germany	First Authorized Representative of the German Metalworkers' Union (IG Metall), Reutlingen/Tübingen, Germany Employee representative
HELMUT BRUST Bad Urach, Germany	Director Outlet Germany HUGO BOSS AG, Metzingen, Germany Employee representative
FABRIZIO CARRETTI Milan, Italy	Principal Permira Associati S.p.A., Milan, Italy until February 20, 2010
OLAF KOCH Ingersheim, Germany	Chief Financial Officer Metro AG, Düsseldorf, Germany until February 20, 2010
ULRICH GASSE Bad Soden, Germany	Attorney at law, Principal Permira Beteiligungsberatung GmbH, Frankfurt/Main, Germany until February 20, 2010
SUSANNE GREGOR Reutlingen, Germany	Head of OPR Clothing Man HUGO BOSS AG, Metzingen, Germany Employee representative until June 21, 2010

BERND SIMBECK Metzingen, Germany	Administrative employee HUGO BOSS AG, Metzingen, Germany Employee representative since June 21, 2010
SINAN PISKIN Metzingen, Germany	Administrative employee HUGO BOSS AG, Metzingen, Germany Employee representative
DR. MARTIN WECKWERTH Frankfurt/Main, Germany	Partner Permira Beteiligungsberatung GmbH, Frankfurt/Main, Germany
MONIKA LERSMACHER Kornwestheim, Germany	Secretary of the German Metalworkers' Union IG Metall Area Headquarters, Baden-Württemberg, Stuttgart, Germany Employee representative
DAMON MARCUS BUFFINI Surrey, Great Britain	Managing Director Permira Advisers LLP, London, Great Britain since February 21, 2010
LUCA MARZOTTO Venice, Italy	Chief Executive Officer Zignago Holding S.p.A., Fossalta di Portogruaro, Italy since February 21, 2010
GAETANO MARZOTTO Milan, Italy	Chairman of the Supervisory Board Gruppo Santa Margherita S.p.A., Fossalta di Portogruaro, Italy since February 21, 2010
DR. KLAUS MAIER Stuttgart, Germany	Management Consultant since February 21, 2010

ADDITIONAL INFORMATION ON THE DUTIES OF SUPERVISORY BOARD AND MANAGING BOARD MEMBERS

The following members of HUGO BOSS' Supervisory Board also hold positions on bodies at the companies specified below:[1]

Dr. Hellmut Albrecht	MME Moviement AG[2]	Munich, Germany
	Pro-Beam AG & Co. KGaA[2]	Planegg, Germany
Gianluca Andena	CMA S.àr.l.	Luxembourg, Luxembourg
	Dinosol Supermercados SL	Madrid, Spain
	Permira Asesores SL[2]	Madrid, Spain
	Permira SGR S.p.A.	Milan, Itay
	Valentino Fashion Group S.p.A.	Milan, Italy
Gert Bauer	ElringKlinger AG	Dettingen/Erms, Germany
Fabrizio Carretti	Valentino Fashion Group S.p.A.	Milan, Italy
	Valentino S.p.A.	Milan, Italy
Olaf Koch	Metro Finance B.V.	Venlo, Netherlands
	Metro Reinsurance N.V.	Diemen, Netherlands
	Metro Euro Finance B.V.	Venlo, Netherlands
	Assevermag[2]	Baar, Switzerland
	MGP (Metro Group Account Processing International AG)[2]	Baar, Switzerland
	MIAG (Metro International AG)[2]	Baar, Switzerland
Monika Lersmacher	Berthold Leibinger GmbH	Ditzingen, Germany
Dr. Klaus Maier	Diehl Stiftung & Co. KG	Nuremberg, Germany
	Titan X Holding AB	Mjällby, Sweden
	Valeo SA	Paris, France
Gaetano Marzotto	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Santa Margherita S.p.A.[2]	Fossalta di Portogruaro, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Valentino Fashion Group S.p.A.	Milan, Italy
Luca Marzotto	Zignago Holding S.p.A.	Fossalta di Portogruaro, Italy
	Santa Margherita S.p.A.	Fossalta di Portogruaro, Italy
	New High Glass Inc.	Miami, FL, USA
	Federvini - Sindacato A[2]	Rome, Italy
	Verti Speciali S.p.A.	Trento, Italy
	Zignago Vetro S.p.A.	Fossalta di Portogruaro, Italy
	Banca Populare Friuladria S.p.A.	Pordenone, Italy
Dr. Martin Weckwerth	Valentino Fashion Group S.p.A.	Milan, Italy

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

Publication

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

Metzingen, March 8, 2011

HUGO BOSS AG
The Managing Board

CLAUS-DIETRICH LAHRS
CHRISTOPH AUHAGEN
MARK LANGER

RESPONSIBILITY STATEMENT – CONSOLIDATED FINANCIAL STATEMENTS

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Metzingen, March 8, 2011

HUGO BOSS AG
The Managing Board

CLAUS-DIETRICH LAHRS
CHRISTOPH AUHAGEN
MARK LANGER

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the HUGO BOSS AG, Metzingen, comprising the balance sheet, the income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the additional requirements of German commercial law pursuant to § 315a sec. 1 of the German Commerical Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, March 8, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

GÖTTGENS
Wirtschaftsprüfer

GLOSS
Wirtschaftsprüferin

06

ADDITIONAL

06 — CONTENTS ADDITIONAL

GENERAL INFORMATION

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

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FORWARD-LOOKING STATEMENTS

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

FINANCIAL CALENDAR AND CONTACTS

MARCH 29, 2011	PRESS AND ANALYSTS' CONFERENCE
APRIL 28, 2011	FIRST QUARTER REPORT 2011
MAY 10, 2011	ANNUAL SHAREHOLDERS' MEETING
JULY 28, 2011	FIRST HALF YEAR REPORT 2011
NOVEMBER 2, 2011	FIRST NINE MONTHS REPORT 2011

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GLOSSARY

B – D

B

BRAND

With its brand world including the core brand BOSS (BOSS Black, BOSS Selection, BOSS Green, BOSS Orange) and the trendy brand HUGO, HUGO BOSS targets different, clearly differentiated groups.

C

CASH FLOW STATEMENT

The aim of the cash flow statement is to create transparency regarding changes in a company's liquidity funds. It describes in detail the type, amount and sources of the cash flows.

COMPLIANCE

Measure to ensure the adherence to legal and official regulations, the Company's internal guidelines as well as codes to which the Group has committed itself.

CORPORATE CENTER

Group-wide bundling of central purchasing, production, research and development activities, and other central functions. Corporate Center is one of the segments defined by HUGO BOSS, alongside Europe, Americas, Asia/Pacific and Royalties.

CORPORATE GOVERNANCE

Corporate governance defines the principles and legal framework for management and monitoring at the Company. In Germany, these principles are set out in the Corporate Governance Code.

COVENANTS

Covenants are clauses in a loan agreement or contractual obligations given by a borrower for the term of a loan agreement. They generally relate to the observation of upper and/or lower limits for certain key financial performance indicators. As a condition of its syndicated loan, the HUGO BOSS Group must meet certain key performance indicators.

D

DERIVATIVES

A derivative is a financial instrument, whose change in value is linked to an underlying asset such as shares, bonds, currencies or commodities or to market indexes and which is settled at a future date. It does not require an initial net investment or a comparatively low initial net investment.

DIRECTLY OPERATED STORES (DOS)

Directly operated stores are monobrand stores (cf. monobrand sales format) and shops operated directly by HUGO BOSS. In these stores HUGO BOSS acts as tenant, owner, employer and retailer of HUGO BOSS products.

DIRECTORS' DEALINGS

Directors' dealings are own-account transactions entered into by members of the management with HUGO BOSS AG securities. Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the management are required to disclose such transactions.

DIVERSITY

Diversity refers to heterogeneity and differences among employees, executives and members of the Supervisory Board of HUGO BOSS AG. For example, diversity can relate to the nationality, gender or age of specific groups of people.

E – I

GLOSSARY

E

EBIT
Earnings before interest and taxes. EBIT is a key business performance indicator which shows a company's operating profit in a certain period not including taxes and interest.

EBITDA MARGIN
The EBITDA margin describes the ratio of EBITDA (cf. EBITDA before special items) to sales revenues.

EBITDA BEFORE SPECIAL ITEMS
Earnings before interest, taxes, depreciation and amortization not including special items (cf. special items). EBITDA before special items is the most important performance indicator for the HUGO BOSS Group.

F

FRANCHISE
Franchise is a form of cooperation with the retail trade. The franchisor (HUGO BOSS) supplies goods to the franchisee for the latter to sell in monobrand HUGO BOSS stores (cf. monobrand sales format) on their own account, employing their own capital, but in correspondence with the requirements of the franchisor.

FREE CASH FLOW
Free cash flow is calculated by adding up the operating cash flow and the cash flow from investing activities. To increase its enterprise value, HUGO BOSS focuses on maximizing free cash flow.

FREE FLOAT
Shares of the HUGO BOSS AG in free float are continuously available for trading on the equity market. They are not held by institutional investors, i.e. they are not held in order to pursue long-term strategic objections.

G

GOODWILL
Goodwill resulting from a business combination represents the difference between the consideration transferred plus the amount of the shares without a controlling influence, and the assets acquired and liabilities assumed.

GROUP'S OWN RETAIL BUSINESS
In the Group's own retail business, sales of HUGO BOSS products are made directly to the end customer via directly operated stores (cf. directly operated stores), outlet stores and the HUGO BOSS online store, in contrast to sales in wholesale business (cf. wholesale).

H

WHOLESALE
In contrast to the direct sale of goods via the Group's own retail business (cf. Group's own retail business), sales in wholesale business are made indirectly via retail partners' sales space. Wholesale purchases HUGO BOSS goods either through traditional preorder (cf. preorder) business or via replenishment (cf. replenishment) and sells them on to the end customer.

I

IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS)
IFRS are international financial reporting standards for companies that are issued by the International Accounting Standards Board (IASB). They provide worldwide transparent and comparable accounting of consolidated financial statements, and make it easier to compare publicly traded companies.

GLOSSARY

L – R

L

LIKE-FOR-LIKE SALES DEVELOPMENT

Sales trend within the Group's own retail business (cf. Group's own retail business) for comparable areas, i.e. not including newly opened or recently closed points of sale.

M

MONOBRAND SALES FORMAT

Contrary to multi-brand sales formats, monobrand sales formats are used to sell the products of only one brand at one particular point of sale.

N

NET WORKING CAPITAL

Net working capital is the sum of inventories, trade receivables and other current assets, less trade payables, current provisions and other current liabilities.

NET FINANCIAL POSITION

The net financial position comprises the total of all financial liabilities due to banks minus cash and cash equivalents.

O

OUT-OF-HOME MEDIA

Out-of-home media refers to forms of advertising which reach customers outside their homes and offices. This includes traditionally for example advertising pillars and billboards, but also advertisement on busses, telephone boxes or at airports.

P

POINTS OF SALE (POS)

All businesses where HUGO BOSS products are sold – i.e. stores, shops and the online store (cf. stores) – are points of sale. They can be operated directly by the Group (cf. Group's own retail business) or by wholesale partners (cf. wholesale).

PREORDER

Preorders are orders received for future deliveries. Wholesale partners place orders on a seasonal basis in the HUGO BOSS showrooms (cf. showroom) for the goods presented there (collection). In addition, goods can be reordered irrespective of season using the HUGO BOSS replenishment (cf. replenishment).

R

ROYALTY

A royalty is the permission to use another's trademark for commercial purposes in exchange for the payment of a sum of money (royalty fee). Granting of royalties enables HUGO BOSS to benefit from the expertise and potentially different distribution structure of the licensee. Products manufactured for HUGO BOSS by licensees include fragrances, eyewear, watches, children's fashion and motorcycle helmets.

REPLENISHMENT

Replenishment of goods which allows HUGO BOSS to react to short-time surges in demand from trading partners.

S–T **GLOSSARY**

S

SEASON
A collection is delivered and sold over a particular period of time (season).

SEGMENTS
Under IFRS 8 (cf. IFRS), a segment is a component of an entity that engages in non-derivative business activities from which it may earn revenues. The operating segment results (cf. EBITDA before special items) are regularly reviewed by a company's responsible governing body. The HUGO BOSS Group has defined the following segments: Europe, Americas, Asia/Pacific, Royalties (cf. Royalty) and the Corporate Center (cf. Corporate Center).

SHOWROOM
The showroom is where the collection is presented to wholesale customers (cf. wholesale) who can then place their orders.

SPECIAL ITEMS
HUGO BOSS defines special items as expenses with no direct connection to the business activity. This includes for example expenses relating to structural realignment or reorganization of individual business segments.

STOCK APPRECIATION RIGHTS (SAR PROGRAM)
The SAR program was created by HUGO BOSS for Managing Board members and executives. As part of this program, executives of HUGO BOSS AG and its subsidiaries are granted a certain number of participation rights. These rights enable them to benefit from any increase in the value of the Company's shares. The participation rights solely grant a claim to cash settlement, not a claim to HUGO BOSS AG shares.

STORES
A store is a sales area with its own entrance, selling exclusively HUGO BOSS products via the appropriate shop concept. Stores can be operated directly by the Group (cf. directly operated stores) or as franchises (cf. franchise).

SALES AREA PRODUCTIVITY
The sales area productivity measures the sales potential per square meter and year. The key figure shows the sales success of the Group's own retail business (cf. Group's own retail business).

T

TIME TO MARKET
The period of time between development of a product and its delivery to the market.

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COLORDRUCK, LEIMEN

PRODUCTION

FSC www.fsc.org MIX Paper from responsible sources FSC™ C021366

carbon neutral natureOffice.com | DE-134-974599 print production

← **HUGO BOSS 5-YEAR-OVERVIEW**
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HUGO BOSS 5-YEAR-OVERVIEW

in EUR million
Earnings Position
Sales
Gross Profit[1]
EBITDA[1]
EBITDA before special items[1]
EBIT[1]
Net income
Financial Position and Dividend
Cash flow from operating activities
Net financial position
Capital expenditures
Depreciation/amortization
Dividend
Special dividend
Asset and Liability Structure
Total assets
Shareholders' equity
Net working capital
Non-current assets
Key Ratios
Gross profit margin in %[1]
Adjusted EBITDA margin in %[1, 3]
EBIT margin in %
Return on sales after taxes in %
Total leverage[4]
Equity ratio in %
Return on equity in %[5]
Employees
Employees[6]
Personnel expenses
Shares
Earnings per share (in EUR)
Common shares
Preferred shares
Dividend per share (in EUR)
Common shares
Preferred shares
Special dividend per share (in EUR)
Common shares
Preferred shares
Common share (in EUR)[7]
Last
High
Low
Preferred share (in EUR)[7]
Last
High
Low
Number of shares outstanding (in million)[8]
Common shares
Preferred shares

1 The previous years' figures have been adjusted. Please also refer to the enclosed Notes on the Group Results.
2 2010: Dividend proposal.
3 EBITDA before special items/Sales.
4 Net financial position/EBITDA before special items and expenses for the "Stock Appreciation Rights Program".
5 Net income related to average equity.
6 Employees as of December 31. 7 Xetra. 8 Number of shares outstanding as of December 31, including own shares.

	2010	2009	2008	2007	2006
	1,729.4	1,561.9	1,686.1	1,632.0	1,495.5
	1,027.2	847.1	891.0	845.0	759.8
	336.1	224.5	236.0	287.1	233.0
	349.8	267.2	272.4	274.7	233.0
	263.9	155.4	175.0	219.7	184.0
	189.2	104.0	112.0	154.1	128.7
	308.3	343.7	164.8	109.7	171.9
	201.1	379.1	583.2	173.6	118.0
	55.6	48.3	118.8	84.7	98.5
	72.2	69.1	61.0	67.4	49.0
	139.7 [2]	66.6	94.9	100.4	82.5
	–	–	–	345.1	–
	1,355.4	1,065.4	1,161.6	1,039.3	943.1
	361.2	205.5	202.9	550.7	499.9
	204.8	223.0	391.9	397.4	298.7
	467.2	435.0	463.0	400.5	397.9
	59.4	54.2	52.8	51.8	50.8
	20.2	17.1	16.2	16.8	15.6
	15.3	10.0	10.4	13.5	12.3
	10.9	6.7	6.6	9.4	8.6
	0.6	1.4	2.1	0.6	0.5
	26.6	19.3	17.5	53.0	53.0
	66.9	50.5	33.7	29.2	26.2
	9,944	9,027	9,593	9,123	8,441
	368.4	331.4	352.8	299.7	277.8
	2.69	1.50	1.62	2.22	1.84
	2.70	1.51	1.63	2.24	1.86
	2.02 [2]	0.96	1.37	1.45	1.19
	2.03 [2]	0.97	1.38	1.46	1.20
	–	–	–	5.00	–
	–	–	–	5.00	–
	49.23	20.22	17.30	39.60	41.00
	49.52	23.15	38.81	53.39	41.00
	17.78	8.82	11.24	39.00	30.19
	56.50	24.55	14.40	39.00	38.92
	56.52	28.60	40.65	48.77	40.03
	22.38	9.03	9.33	37.90	29.71
	70.40	70.40	70.40	70.40	70.40
	35.86	35.86	35.86	35.86	35.86
	34.54	34.54	34.54	34.54	34.54