



H U G O B O S S

**TAX STRATEGY
FOR FINANCIAL YEAR 2019**

I. Introduction

As the Management Team of HUGO BOSS, we firmly believe that paying tax is of central importance to our global economic and social relationships. By paying our taxes, we assume responsibility for our actions in every country in which we operate. Our tax payments are an important contribution to the expansion and maintenance of infrastructure and social cohesion in every one of these countries, as well as representing a cornerstone in our commitment to conduct and develop our business in a sustainable, fair and cooperative manner across the world.

Despite the fact that there is not always absolute certainty regarding tax in international business transactions, which leaves some scope for interpretation, HUGO BOSS recognizes its clear responsibility in respect of local legislation. For this reason, tax compliance for HUGO BOSS is more than gearing our decision-making processes to the exact wording of the law. It also means taking into account the purpose of the tax law as well as the intentions of the legislator.

For this purpose, HUGO BOSS has drawn up the following guiding principles in the form of a tax strategy aimed at ensuring that legal obligations are met throughout the Group as a whole, as well as aligning it with our economic activities.

II. Tax compliance

HUGO BOSS has introduced a global body of rules for all its employees worldwide. This code of conduct sets out the company's fundamental values and summarizes "conduct in compliance with the law" as follows:

"It goes without saying that our company complies with the law. Our employees must be aware that if they violate the law, legal proceedings may be initiated against them and the company. All employees must comply with local laws as well as internal company policies and agreements. Violations of law that are punishable under the criminal law must be avoided under all circumstances. Consequently, it is important that all employees are aware of the local legislation and internal company policies that are relevant for their sphere of activities."¹

¹ The current version of the HUGO BOSS Code of Conduct is available at: https://group.hugoboss.com/fileadmin/media/pdf/sustainability/HUGO-BOSS_code-of-conduct_EN.pdf

As a matter of principle, the Group Tax Department is involved in the process of continuously meeting all the Group's obligations under the tax law. This is particularly the case when decisions are made as part of processes that affect the entire Group or that could have an impact on the reputation of HUGO BOSS. The aim is to ensure tax compliance in all departments that deliver information which is relevant for the tax department and/or that are subject to tax obligations.

The HUGO BOSS Group Tax Department establishes guidelines and directives for this purpose. Therefore each transaction within the Group follows the arm's-length principle and is hedged with appropriate documentation of the underlying facts, purpose and pricing mechanism. It also offers regular training in this area. In the context of digitalization tax reporting is supported by a first-rate, global tax reporting tool, which ensures a high degree of transparency and assurance that the reported figures are accurate. To fulfil the reporting obligations entirely and OECD-compliant, arising due to the BEPS developments, new processes have been implemented e.g. the country-by-country reporting. Furthermore a special IT tool for transfer pricing documentations was implemented to ensure the timely provision of relevant information.

Comprehensive controls aim to monitor and ensure payment of all taxes owed as well as compliance with applicable tax disclosure obligations under local laws. Efficient collaboration between external auditors and tax advisors is crucial in this respect, and is promoted by HUGO BOSS in a sustainable fashion.

All HUGO BOSS Group companies perform active trade or business activities on company premises or serve as holding or leasing entity. This also applies for our subsidiaries in countries such as Switzerland (canton of Zug), Singapore or the Netherlands which could be considered to be tax havens. No HUGO BOSS subsidiary is operated specifically to avoid tax. The tax authorities are regularly informed of all the HUGO BOSS Group companies and their respective functions.

III. Tax risk management

HUGO BOSS has to pay tax in many countries as a result of the global nature of its business activities. Local tax laws are often complex and are subject to interpretation by both management and the authorities themselves. Recent international developments have heightened their complexity further. At the same time, companies' compliance with tax regulations and the documentation thereof is subject to increasing public scrutiny. The ambivalence of these developments has meant greater uncertainty for taxpayers.

Effective risk management enables the Group to identify such uncertainties and the resulting risks at an early stage and to mitigate any potential adverse consequences by implementing suitable measures. This includes financial risks in the form of interest on tax payments, fines or penalties, as well as damage to the reputation of HUGO BOSS or a lasting deterioration in its relationship with the authorities. It also refers to the loss of production advantages or export advantages as potential risks. The objective of HUGO BOSS is to minimize any tax-related risks by means of appropriate mitigation measures. More detailed information on the HUGO BOSS Group's risk and opportunities policy is provided in the "Report on Risks and Opportunities" section of the Annual Report 2019.²

The Group Tax Department is in constant contact with all business units (risk owners) so that it is always informed of the latest developments in the area of tax. All relevant facts are analyzed and assessed together with Group Risk Management. Tax-related issues that present potential tax risks are reported to the Managing Board and the Supervisory Board's Audit Committee so as to ensure effective risk management.

To avoid tax risks and minimize their financial consequences, the aim is to reduce the number of fiscal years not yet definitively audited by the tax authorities, where possible through prompt company audits. The risk mitigation strategy also involves continuous reviewing of tax risks as part of the quarterly reporting process and monitoring of tax risks and opportunities. To establish legal certainty about our own legal position with regard to matters of material significance, we seek to obtain binding rulings from financial authorities where necessary and legally possible as well as second opinions from external advisors. Last but not least, we prevent tax risks from occurring and minimize their effects by submitting tax declarations and returns on time.

²The Report on Risk and Opportunities 2019 can be viewed at: https://annualreport-2019.hugoboss.com/servicepages/downloads/files/entire_hb_ar19.pdf

IV. Tax function responsibilities and governance

In the case of the HUGO BOSS Group, meeting tax obligations involves the close collaboration of the Group Tax Department and CFO as well as the responsible officers of the Group companies. The CFO, Director Group Finance & Tax and the respective Head of International and National Tax Department maintain a constant exchange on current issues, tax positions and projects. The Group Managing Board is also provided with regular comprehensive updates on current tax positions and issues, at the least with every first half-yearly report and annual report, and as part of the risk management and compliance reporting process. The Supervisory Board, and in particular its Audit Committee, receive reports on any material tax positions and tax risks.

Within the Group Tax Department, there is regular communication on current topics and the optimization of processes and business transactions, including regular reports on recent, relevant legal developments and training events visited. In addition, the HUGO BOSS Group Tax Department periodically publishes Group-wide information about recent, tax-related legal developments aimed at the target audience.

The Group Tax Department is staffed by specialists in the areas of corporate income tax, value added tax, international taxation, tax accounting and transfer pricing. All are highly qualified and specialized in their respective domains, enabling them to master the inherent complexity of this area of expertise. By attending ongoing and specific internal and external training events they continuously develop their skills and awareness of current developments.

The HUGO BOSS Group Tax Department sees itself as a business partner to the Group companies based outside Germany, and provides them with support. This allows it to analyze the measures required from a tax perspective together with the Group companies – where appropriate by utilizing the expertise of local tax specialists. In the event of changes in the law or impending restructuring measures, the HUGO BOSS Group also has recourse to local tax experts, always in close coordination with the Group Tax Department.

V. Relationship with government and tax authorities

HUGO BOSS cooperates intensively with public institutions and local financial authorities with the aim of fostering an enduring, open and constructive approach to discussing tax matters. This requires a responsible and practical interpretation of the applicable laws. As a matter of course, HUGO BOSS reserves the right to defend its legal positions, if necessary with recourse to the courts.

HUGO BOSS respects every government's right to define its own taxation law and the implementation thereof. HUGO BOSS also believes in fostering cooperative relationships with tax authorities based on mutual trust and respect, reliability and professionalism. That is the commitment we make, irrespective of any discussions with the tax authorities that may arise from the interpretation of applicable legal provisions.

In order to avoid friction in our dealings with financial authorities and to meet legally prescribed deadlines, we review all correspondence in terms of its completeness and factual accuracy without delay.

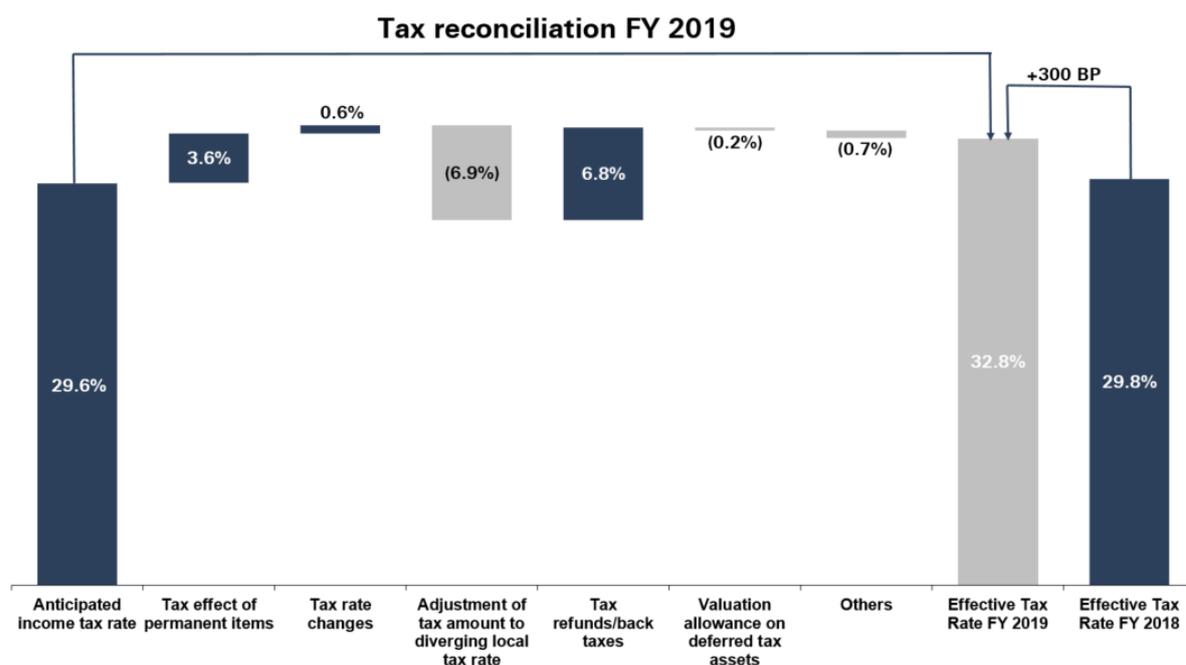
VI. Tax in our Annual Report and Accounts

The following table presents a reconciliation of the expected income tax expense that would be theoretically incurred if the current domestic income tax rate of 29.5 % (2018: 29.5%) were applied at a Group level to the current income tax expense reported by the Group. The domestic income tax rate applied takes into account a corporate income tax rate (including solidarity surcharge) of 15.8% (2018: 15.8%) and a trade tax rate of 13.7% (2018: 13.7%).

(in TEUR)

	2019	2018
Earnings before taxes	305,593	336,670
Anticipated income tax	90,303	99,486
Tax effect of permanent items	11,089	5,136
Tax rate-related deviation	-19,355	-20,296
thereof effects of changes in tax rates	1,833	261
thereof adjustment of tax amount to diverging local tax rate	-21,188	-20,557
Tax refund / tax arrears	20,757	19,087
Deferred tax effects form prior years	2	-2,420
Valuation allowance on deferred tax assets	-630	-166
Tax effects from distributable profit of subsidiaries	-1,028	11
Other deviations	-758	-368
Income tax expenditure reported	100,380	100,470
Income tax burden	33%	30%

The income tax burden due to permanent items was reduced by tax-free income of EUR 2,350 thousand (2018: EUR 1,152 thousand). The opposite tax effects as a result of non-deductible business expenses come to EUR 13,439 thousand (2018: EUR 6,288 thousand).



VII. Ensuring sustainable development through our global tax expenses

HUGO BOSS recognizes its social responsibility as a taxpayer and is committed to Germany as a business location via its biggest Group company and tax payments. In absolute terms, income tax expenses amounted to around EUR 100 million in 2019, of which about 62 % were related to Germany.

Breakdown of income tax expense 2019	
Main countries of company's operations	Income tax expense in %
Germany	62 %
USA	11 %
China	6 %
Great Britain	5 %
Benelux	3 %
France	2 %
Italy	2 %
Other countries	9 %
Result	100 %

The Managing Board

HUGO BOSS AG