Tax Strategy 2017

THG

IDEAS WITH MOMENTUM®

About Us – A Snapshot

In 2004, when The Hut Group was founded, it provided white label e-commerce websites for grocery retailers.

From 2008, we acquired a series of entertainment and fashion brands, including Zavvi, AllSole and MyBag.

We are now one of the world's largest online Beauty and Wellbeing businesses with Myprotein and Lookfantastic leading our portfolio of lifestyle websites.

Our growth has continued into 2017, both organically and via M&A activity. During 2017, to November, we have acquired Hangar Seven, UK2, RY.com.au, GLOSSYBOX, ESPA and Illamasqua. Our end-to-end proprietary platform powers some of the world's largest brands. We have over 16 million customers worldwide and 400 million visits to our sites annually. We currently trade in 150 countries, 47 languages, across 140 websites, supported by 30 currencies.

Our Approach to Tax

We understand the importance of the taxes we pay and we strive to be tax compliant in each territory that we operate in, albeit the heart of our business and therefore the bulk of the tax we pay, is in the UK.

Our platform is operated entirely from the UK. Our flagship warehouse, Omega, a 1m sq ft facility was opened in Warrington in 2016 and we continue to expand into additional office space at our Cheshire base. In the year to 31 December 2016 we employed over 1,400 new employees. UK employment taxes are by far the biggest component of our total tax bill, making up over £18m of our contribution to HMRC in the same period.

We are proud that we can contribute to the development of all the economies in which we operate, and we take our responsibility to pay our fair share of tax seriously. The table below sets out our total global tax contribution in 2016:

	Y/E 2016 £'m
PAYE and NIC	18.7
Corporation Tax	1.8
Business Rates	2.4
VAT	3.1
Stamp Duty	0.3
Total Tax	**26.3**

Note: Excludes exceptional VAT recovered on property purchase and warehouse fit-out

The Group has no interest in having open tax disputes with HMRC and is averse to participating in aggressive tax avoidance schemes. The Group will, however, commit to operating in a tax efficient way in order to maximise stakeholder returns, so long as this is compliant and within the framework of current tax legislation. For instance, we will focus our efforts on establishing the level of our entitlement to tax incentives, such as the UK's R&D tax initiative and enhanced capital allowances.

We have an open and transparent approach to HMRC and our preference is to work together to obtain a certain outcome wherever possible, for example to obtain rulings on the VAT classification of certain products. Given the Group's size, it would be helpful if we could be allocated a Customer Relationship Manager (CRM) to properly facilitate timely, balanced communication and cooperation. We understand that HMRC has resource constraints, like any business, but we do hope that this is something we can achieve together in due course.

In line with the Group's growth, we have expanded our tax team accordingly. In the past year, we have expanded from 4 to 7 full time equivalents, increasing the breadth and depth of tax experience across our team. We will continue to recruit as required, primarily to support our plans for growth and further acquisitions in the future. We have subscribed to a tax technical on-line service and support ongoing training for all of the team. We also use advisors where we do not have the relevant in-house expertise or where there is uncertainty as to a particular tax position.

Overall, the Group is unwilling to accept a high level of tax risk and it has a desire to be tax compliant. The biggest risk areas arise through the level of Mergers & Acquisitions and the pace of growth. To mitigate this, the Group uses external advisors to undertake tax due diligence on target businesses pre-acquisition. Post-acquisition, the tax team endeavour to address identified tax risks in a timely manner. There are also ongoing procedures in place to identify, monitor and manage risk, along with continuous Senior Accounting Officer (SAO) monitoring in conjunction with the Group's internal audit function.

The UK Government adopted the OECD's Base Erosion and Profit Shifting recommendations requiring multinationals to submit country by country tax reports to tax authorities. We shall comply with this obligation for the year ending 31 December 2018, the first year applicable due to the Group's size, by submission of a report to HMRC by the end of 31 December 2019.