

Policy on Auditor Independence

Imperial Brands PLC (Imperial Brands) and its subsidiaries have always maintained a policy of strict separation between the auditing and consulting functions of their external auditors to ensure that they are independent, both in fact and appearance.

Imperial Brands therefore seeks only to use its external group auditor, and any subsidiary auditor whose work the external group auditor relies upon, to provide non-audit services in circumstances where those services do not conflict with the auditor's independence.

Our policy, effective from 1 October 2016, can be summarised as follows:

- Clear definition of exactly which services the external group auditor, and any subsidiary auditor whose work the external group auditor, relies upon are permitted to provide.
- Establishing that a tender process must be carried out for non-audit services undertaken by the external group auditor and any subsidiary auditor whose work the external group auditor relies on expected to generate fees of above £250,000.
- Formal advanced approval by the Audit Committee for any work undertaken by the external group auditor and any subsidiary auditor whose work the external group auditor relies on expected to generate fees of above £1 million.
- Rotation of the lead external audit partner after a maximum of five years.
- Rotation of the audit partners on significant subsidiaries after a maximum of five years.
- A tender process for the external audit at least every 10 years.
- A change in external group auditor at least every 20 years.
- An annual review of the external group auditor's performance against measurable criteria.
- Clear definition of the responsibilities of the external group auditor and their independence, with annual assessment by the Audit Committee.
- Restricted hiring agreements between Imperial Brands and the external group auditor.
- Disclosure in the Annual Report & Accounts on auditor independence policy and all audit and non-audit fees charged by the external group auditor during the reporting period.

Our Policy on Auditor Independence

Services provided by the external group auditor, and any subsidiary auditor whose work the external group auditor relies upon

General Policy

Imperial Brands and its subsidiaries will only use the external group auditor, and any subsidiary auditor whose work the external group auditor relies upon, to provide services (other than the *Audit* and *Audit related services* outlined below) in cases where these services do not conflict with the auditor's independence.

The external group auditor, and any subsidiary auditor whose work the external group auditor relies upon, must be independent both in fact and appearance. As a consequence, the external group auditor or any subsidiary auditor whose work the external group auditor relies upon is not independent if it, directly or indirectly, maintains a financial, employment or business relationship with Imperial Brands or provides services which:

- Create a mutuality of interest;
- Place the auditor in a position of auditing their own work;
- Result in the auditor acting as an Imperial Brands manager or employee; or
- Place the auditor in the position of advocate for Imperial Brands.

Services provided

Consistent with the abovementioned policy, our external group auditor and any subsidiary auditor whose work the external group auditor relies upon (where appropriate) are permitted to provide the following audit related and non-audit services:

Audit services

The audit of the consolidated financial statements of Imperial Brands and the financial statements of its subsidiaries, associates, joint ventures and other associated entities such as pension funds do not need to go through a tender process for each engagement.

Audit related services

Audit related services are assurance services or other work traditionally provided by external auditors in their role as external auditors. They usually result in a certification or specific opinion and include the following:

- Reporting required by law or regulation to be provided by the auditor;
- Reviews of interim financial information;
- Reporting on regulatory returns;
- Reporting on internal financial controls when required by law or regulation; and
- Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

The external group auditor, and any subsidiary auditor whose work the external group auditor relies upon, can be appointed to perform these audit related services without the requirement of a separate tender process, under the arrangements made for audit services.

Non-audit services

Any other services provided by our external group auditor are subject to a fee cap.

All non-audit services undertaken by the external group auditor, or any subsidiary auditor whose work the external group auditor relies upon, need the specific approval of the Audit Committee although this approval is delegated to management up to £1 million.

For all non-audit services undertaken by the external group auditor, or any subsidiary auditor whose work the external group auditor relies upon, a tender process is required for work anticipated to generate fees of above £250,000.

Prohibited services

The following non-audit services cannot be provided by the external group auditor, and any subsidiary auditor whose work the external group auditor relies upon:

- Tax services relating to:
 - Preparation of tax forms;
 - Payroll tax;
 - Customs duties;
 - Identification of public subsidies and tax incentives unless support from the audit firm is required by law;
 - Support regarding tax inspections by tax authorities unless support from the audit firm is required by law;
 - Calculation of direct and indirect tax and deferred tax; and
 - Provision of tax advice.
- Services that involve playing any part in management or decision-making of the audited entity.
- Bookkeeping and preparing accounting records and financial statements.
- Payroll services.
- Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information, or designing and implementing financial information technology systems.
- Valuation services, including valuations performed in connection with actuarial services or litigation support services.
- Legal services, with respect to:
 - Provision of general counsel;
 - Negotiating on behalf of the audit entity; and
 - Acting in an advocacy role in the resolution of litigation.
- Services related to the audited entity's internal audit function.
- Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity.
- Promoting, dealing in, or underwriting shares in the audited entity.
- Human resources services with respect to:
 - Management in a position to exert significant influence over the preparation of accounting records or financial statements which are the subject of the audit, where such services involve:
 - Searching for or seeking out candidates for such positions; or
 - Undertaking reference checks of candidates for such positions.
 - Structuring the organisation design; and
 - Cost control.

There is no minimum fee level below which this list of prohibited services does not apply. For further clarification on prohibited services, the Group Financial Controller should be contacted.

Fee cap for non-audit services

There is a cap on non-audit service fees of the external group auditor based being 70% of the average of the audit fees for the preceding three years. This cap will not apply until the year commencing 1 October 2019 when it will be based on the average of audit fees for the years ending 30 September 2017, 2018 and 2019. The cap is to be calculated at two levels: at the UK (statutory audit) level and at the network level in accordance with the revised Ethical Standard.

Rotation of key audit partners

We require our external group auditor to adhere to a rotation policy that is widely accepted and provides an appropriate balance between effectiveness and efficiency, risk management, independence and credibility. This implies a rotation of the lead audit partner after a maximum period of five years. In addition, other partners required to sign off audit opinions on significant subsidiaries are required to rotate from their position after a maximum period of five years.

Appointment of the external group auditors

- A tender process for the external audit will be carried out at least every 10 years; and
- A change in external group auditor will be made at least every 20 years.

An annual review of the external group auditor will assess the following:

- Services provided.
- Quality of service.
- Value for money.
- Customer satisfaction.

Responsibility of the external group auditors

The external group auditor will maintain a quality control system that provides reasonable assurance that its independence will not be impaired. The external group auditor will report annually to the Audit Committee of the Board on all aspects concerning independence, including possible conflicts with this policy, if any. The external group auditor will annually confirm their independence in writing.

Responsibility of the Audit Committee

Each year the Audit Committee will formally review Auditor Independence as required by its terms of reference, document its position on this matter, and address any changes to this Policy or situation as necessary.

Hiring arrangements

Imperial Brands and its external group auditor agree on a restricted hiring policy:

- Imperial Brands will not hire partners of the external group auditor involved in the audit of Imperial Brands within the last two (2) years.
- The external group auditor will not hire senior management from Imperial Brands for involvement in the audit of Imperial Brands within two (2) years following termination of their employment agreement with Imperial Brands.

Hospitality

The external auditor, and any subsidiary auditor whose work the external group auditor relies upon, shall not provide or accept gifts and hospitality to or from any Director or employee of the Group.

For the avoidance of doubt:

- All hospitality involving attendance at popular sporting, musical or other entertainment events is prohibited;
- Other forms of entertainment, including meals or drinks, are prohibited; and
- Working meals are acceptable provided there is a clear business purpose and that the overall cost is modest and in line with the Group Travel and Expense Policy.

Communication

Imperial Brands will disclose its Policy on Auditor Independence on its website.

The Annual Report & Accounts will disclose the results of the Audit Committee's assessment of the effectiveness of external auditor and auditor independence, together with details of the audit and non-audit fees provided by its external group auditor during the reporting period.

Effective date

This policy is effective from 1 October 2016.