

Imperial Brands PLC – UK Tax Strategy

Date: February 2019

Introduction

The following information is provided in compliance with the requirements of Finance Act 2016 Schedule 19, paragraph 16(2).

The headings below follow the scheme of the legislation and related guidance that has been issued by HMRC.

The Board's Policy on Taxation is reproduced below:

Policy on Taxation

Adopted by the Board February 2019

Imperial Brands PLC's (the Group or the Company) global tax contribution through both corporate and tobacco taxation exceeds £17 billion annually.

The Group's Policy is to ensure compliance with tobacco taxation and product supply legislation and to engage constructively with revenue authorities worldwide to help combat illicit trade. The Company also engages with revenue authorities and governments more widely on policy issues to voice opposition to aspects of regulation and excessively high tobacco taxation that are likely to increase illicit trade to the detriment of both governments and the Group.

In pursuing this Policy it is of paramount importance that the Group's actions comply with all national and international laws on corporate and tobacco taxation and that there is full disclosure and transparency in the Group's dealings with all revenue authorities. In the field of direct taxation, it is the Group's Policy to maintain an effective tax rate which enhances shareholder value whilst having due regard to financial and reputational risk.

The Group may engage in tax planning to structure its operations and finances in a tax efficient manner but all such tax planning is grounded in commercial reality. All transactions are therefore required to have a commercial rationale or business purpose. The Company will adhere to the OECD arm's length principle in transfer pricing matters.

The Group recognises provisions for tax in its accounts based on estimates of the taxes that are likely to become due. Those estimates may require significant judgement to be exercised in the interpretation of tax law. It is the Group's Policy to obtain formal advice and opinions from leading tax practitioners to support positions taken in the calculation of the tax provision in the accounts. It is the responsibility of the Chief Financial Officer to keep the Board informed of all material developments relating to the Group's taxation position, especially financial or reputational risks that may arise. This will be provided in the form of a Board Tax Update annually or more frequently if circumstances so dictate.

The Group tax department shall maintain oversight of compliance activities across the Group and must be informed of any disputes with any revenue authority and any proposed revenue audits by local tax authorities.

Policy Owner: Oliver Tant, Chief Financial Officer

1. Approach to risk management and governance arrangements in relation to UK taxation

1.1 UK tax risks linked to the size, complexity and extent of change in the business

The Group is internationally diverse, with tobacco brands sold in 160 markets worldwide. The UK business is a large and important component of the Group's business.

UK tax risk related to the size of the business would include the collection and payment of excise duty and VAT.

UK tax risk related to the complexity of the business would include the tax treatment of foreign exchange movements and the taxation of controlled foreign companies. The carrying on of business internationally brings with it additional complexity (and therefore risk) in relation to taxation, for example the transfer pricing of goods, services and financing between group companies in different jurisdictions.

UK tax risk related to the extent of change in the business would include transfer pricing issues arising from changes in factory footprint and organisational structure.

1.2 The governance framework the business uses to manage tax risk

The Policy on Taxation is owned by the Chief Financial Officer. The Policy on Taxation is overseen by the Board and is regularly reviewed.

So far as concerns direct taxation, the implementation of the Policy on Taxation is the responsibility of the Head of Tax. In respect of UK excise duty and VAT, responsibility rests with the General Manager of the UK market and his finance team.

The Head of Tax reports on taxation matters to senior management, the Audit Committee and the Board as appropriate. These reports explain the Group's tax liability for the year in question and any material tax audit issues that may have arisen with HMRC. These reports also explain the nature of any tax planning that may have been undertaken and provide updates on Government tax policy in areas where it may have an impact on the Group.

The Group operates an integrated approach to governance, aligned to the "three lines of defence" model.

The first line of defence is the existence of management control, policies, procedures and training.

The second line of defence includes the involvement of the governance teams, centres of excellence, Group committees and financial oversight to provide clarity of understanding throughout the Group in order to drive good corporate and individual conduct.

The third line of defence is the Internal Audit function. Internal Audit have a rolling programme of internal audit which examines areas of the business and its processes which are relevant for tax purposes.

Specifically in relation to UK tax, the risks inherent in the calculation, collection and payment of excise duty, VAT and corporation tax are mitigated by the operation of documented policies and procedures. On an annual basis the Group carries out a review, for the purposes of the Senior Accounting Officer Certificate, requesting from the relevant business managers confirmation that the necessary processes and procedures have been documented, are up to date and have been adhered to.

To manage transfer pricing risk the Group carries out benchmarking studies on a regular basis to identify arm's length pricing for cross-border flows of goods and services as required by the UK and other national tax authorities.

The Group also operates a comprehensive business approvals process whereby all material transactions and proposed changes to business operations require prior approval from senior management including the Head of Tax.

1.3 The levels of oversight and involvement of the Board

Tax updates are provided for most meetings of the Board and the Audit Committee. There is extensive experience of UK and international taxation amongst Board and Audit Committee members and the Board and Audit Committee are proactive in setting and reviewing the Group's taxation policy, reviewing the tax consequences of any proposed transactions and reviewing any tax audit issues that may arise with HMRC.

2. The attitude of the Group towards tax planning (so far as affecting UK taxation)

2.1 Code of Conduct

The Group's Code of Conduct requires all employees to make decision that are ethical and in line with the Group's Values as well as legal. The Code of Conduct can be found at:

<http://www.imperialbrandsplc.com/Responsibility/Code-of-Conduct>.

2.2 An explanation of why tax planning advice may be sought externally

The UK tax code is highly complex and constantly changing. External tax advice is taken to ensure that a correct analysis is made of proposed transactions such that the tax consequences are understood.

2.3 Tax planning motives

The Group may engage in tax planning to structure its operations and finances in a tax efficient manner but all such tax planning is grounded in commercial reality. All transactions are therefore required to have a commercial rationale or business purpose.

3. The level of risk in relation to UK taxation that the Group is prepared to accept

3.1 An explanation of whether internal governance has rigid levels of acceptable risk and whether this is affected or influenced by stakeholders

Internal governance is not prescriptive on the levels of acceptable risk but, in practice, where there is material doubt as to the tax treatment of any particular transaction, the Group would only proceed on the basis of advice from one or more leading tax practitioners that the transaction in question should have the particular outcome.

External stakeholders have not sought to influence the level of acceptable risk.

4. The approach of the Group towards its dealings with HMRC

4.1 Meeting the requirement to work with HMRC

The Group meets with HMRC annually for a Business Risk Review meeting which addresses all the taxes and is a wide-ranging discussion of all aspects of the Group's UK tax affairs. HMRC make an assessment of the Group's inherent and behavioural risk factors and award an overall risk rating. Inherent risk factors include the fact that Group is both large and international in nature and continually subject to change. Behavioural risk factors include the Group's stated tax strategy, governance structures and willingness to engage in tax planning. There are two possible ratings, namely "Low Risk" and "Not Low Risk". HMRC's most recent rating for the Group is Not Low Risk.

Where appropriate, the Group seeks advance clearance from HMRC on the proposed tax treatment of transactions.

4.2 How the Group works with HMRC on current, future and past tax risks, events or interpretation of the law across all relevant taxes and duties.

The Policy on Taxation imposes a requirement that the Group act in a transparent manner towards HMRC. Pursuant to this requirement, the Group freely provides detailed information to HMRC about transactions that have occurred. This information is habitually provided after transactions have been entered into but well in advance of the filing of the relevant tax returns.

In areas of particular complexity the Group has been proactive in arranging meetings with HMRC to provide explanations and insight on particular matters.

The Group also engages with HMRC and other revenue authorities more widely on policy issues to voice opposition to aspects of regulation and excessively high tobacco taxes that are likely to increase illicit trade to the detriment of both the Government and the Group.

The Group actively engages with HMRC and participates in Know Your Client meetings which cover specific areas of taxation. The Group has hosted detailed technical sessions, with access to business specialists, to provide HMRC with information on the more complex areas of the business.