

Imperial Brands PLC – Group Tax Strategy

Date: March 2022

Introduction

Imperial Brands Plc is a dynamic fast moving consumer goods company borne out of a strong tobacco heritage operating in 120 territories.

Policy on Taxation

Adopted by the Board February 2022

The Group's Policy is to ensure compliance with tobacco taxation and product supply legislation and to engage constructively with tax authorities worldwide to help combat illicit trade. The Group also engages with tax authorities and governments more widely on policy issues to help identify 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 appropriate 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 and compliance with all national and international laws.

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 adheres 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 for any tax items which may have a material financial or reputational tax impact on the Group.

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: Lukas Paravicini, Chief Financial Officer

In support of the Group's Policy on Taxation the Group's Tax Strategy is set out below, applicable to UK taxation matters as well as the Group's Overseas tax affairs, and covers all taxes.

1. The level of oversight and involvement of the Board in Tax matters

Regular reports on taxation matters are provided 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 any tax authority. These reports also explain the nature of any tax planning and update on governmental/supra-national tax policies in areas which may have a material impact on the Group financial or risk position.

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.

2. Approach to risk management and governance arrangements

2.1 Key inherent risks for the Group based on its operations

The Group is internationally diverse, with tobacco brands sold in 120 markets worldwide.

Tax risk related to the size of the business would include the collection and payment of excise duty and VAT, the Group's most significant tax contribution in most territories.

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, as well as changes in tax legislation and or activities in the territories in which we operate.

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

2.2 The governance framework the business uses to manage tax risk

The Policy on Taxation and Tax Strategy are owned by the Chief Financial Officer. Both the Policy on Taxation and Tax Strategy are overseen by the Board and are reviewed and approved annually.

So far as concerns direct taxation, the implementation of the Policy on Taxation is the responsibility of the Head of Tax. In respect of other more operational taxes, responsibility rests with the local management, supported by Group Tax as appropriate.

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 audits which examines areas of the business and its processes which are relevant for tax purposes.

On an annual basis the Group carries out a review requesting from the relevant business managers confirmation that the necessary processes and procedures for tax compliance 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 a growing number of 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.

3. The attitude of the Group towards tax planning

3.1 Code of Conduct

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

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

Additionally, the Group has policies in place to avoid the facilitation of tax evasion by other taxpayers.

3.2 Approach to tax planning and seeking advice

The Group may engage in tax planning to structure its operations and finances in a tax efficient manner but all such planning is grounded in commercial reality or business purpose, taking account of all stakeholders' interests. Stakeholders include customers, suppliers, employees, investors and governments including tax authorities

The Group will utilise all available governmental tax reliefs and incentives for the purposes for which they are intended.

Tax legislation can be highly complex and constantly changing and subjective judgements often required. External tax advice is taken for all transactions or decisions that will have a material financial or risk impact on the Group's tax position to ensure the range of interpretations and outcomes are fully understood. An approach will only be taken where, based on advice received, it is more likely than not that the Group's position will prevail.

4. Levels of acceptable tax risk

The Group fully complies with its tax filing obligations.

Disputes may arise on the interpretation of legislation. The Group proactively engage with tax authorities to resolve such differences where appropriate. Where resolution is not possible, this may lead to litigation, having taken all stakeholders' interest into consideration and strength of advice received.

5. The approach of the Group towards its dealings with tax authorities

The Policy on Taxation requires that the Group act in a transparent manner towards tax authorities. Pursuant to this, where appropriate the Group engage with tax authorities in accordance with the OECD principles of cooperative compliance to eliminate tax uncertainty. This approach is adopted with HM Revenue and Customs in the UK, who additionally perform an annual risk review of the Group, in which we seek to achieve as low a risk rating as possible, taking account of the Group's size and complexity.

For complex matters with a material financial or reputational risk impact the Group may seek to proactively approach a tax authority to provide explanations and insight on particular matters. Where appropriate, the Group would seek advance clearance from relevant tax authorities on the proposed tax treatment of transactions.

The Group also engages with tax 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 governments and the Group.

6. Compliance with UK legislation

The above information is considered to be in compliance with the requirements of Finance Act 2016 Schedule 19, paragraph 16(2).
