

Policy on Auditor Independence and Non-Audit Service Fees

Introduction

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

The Group therefore seeks only to use its Auditor, and any subsidiary auditor whose work the Auditor relies upon, to provide non-audit services in circumstances where those services do not conflict with the auditor’s independence.

Policy Definition

The Group aims to follow relevant ethical guidance and UK professional and regulatory requirements as identified by the UK Code of Corporate Governance and the Financial Reporting Council (FRC).

The Group policy, and any subsequent updates is reviewed annually, and is designed to establish procedures and guidance under which the Group’s relationship with its Auditor will be governed so that the Audit Committee is able to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence, objectivity and effectiveness of the audit process. The policy can be summarised as follows:

- Ensuring the independence of the Group’s Auditor remains, is reviewed at least annually by the Audit Committee and the Auditor clearly understands their responsibilities around independence (as detailed in Section 1 of the policy).
- Defining exactly which services the Auditor, and any subsidiary auditor whose work the Auditor relies upon, are permitted to provide to the Group.
- Defining for the purposes of good corporate governance requirements what constitutes audit, audit related and non-audit service engagements with the Group’s Auditor in line with the FRC’s Revised Ethical Standard 2019 (as detailed in Section 2 of the policy).
- Confirmation of the Group’s approval process for engagement of the Auditor in all non-audit services (as detailed in Section 3 of the policy).
- The requirements that all fees irrespective of any limit and engagements of services agreed with the Group’s Auditor are regularly reported to the Audit Committee.
- Ensuring the Group’s audit services are be put out for tender at least every 10 years and there is a change in the Auditor at least every 20 years (as detailed in Section 4 of the policy).
- Ensuring rotation of the key audit partners involved with the Group audit after a maximum of five years (as detailed in Section 5 of the policy).
- Confirmation of the process of annual review and assessment of the Auditor’s performance against measurable criteria (as detailed in Section 7 of the policy).
- Confirmation of the restricted hiring policy of employees between the Group and its Auditor and the Auditor and the Group for extended periods of time (as detailed in Section 8 of the policy).
- Detail what disclosure is provided by the Group in relation to its Auditor independence policy and all audit and non-audit fees charged by the Auditor (as detailed in Section 10 of the policy).

General Policy Details

1. Definition of Independence

The Group will only use the Auditor, and any subsidiary auditor whose work the 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.

Through the application of this Policy the Group wishes to avoid certain financial, investment, employment or business relationship type threats to Auditor independence which have been identified by the FRC in the following general categories:

- Self-interest threats where the Auditor has a financial or other interest that might cause them to be reluctant to take actions that could be, or could be perceived to be, adverse to the interests of the audit firm or any individual in a position to influence the conduct and outcome of the audit;
- Self-review threats when the Auditor is put in the position of reviewing its own work;
- Management threats when audit partners or employees of the Auditor play any part in the management of, or take decisions on behalf of management of the Company;
- Familiarity (or trust) threats when an audit firm or member of the audit team is predisposed to accept, or insufficiently questioning of, the point of view of the Company;
- Advocacy threat when the Auditor acts as advocate for the Company and supports the position taken by the management of the Company in an adversarial or promotional situation, creating an actual or perceived threat; and
- Intimidation threat when the Auditor's conduct is influenced by fear or threats.

2. Definition of Audit and Non-Audit Services

The Group's Auditor, and any subsidiary auditor whose work the Auditor relies upon, (where appropriate) are permitted to provide only specific types of engagements which are classified as audit related and non-audit services as detailed below:

2.1 Services required by law or regulation – exempt from non-audit services cap

Audit related services are assurance services or other work provided by the Auditor in their role as the appointed Group Auditor's which is required and determined by law or regulation. These are usually services that result in a need for the Auditor to provide a certification or specific opinion which cannot be provided by another audit service provider and include the following:

- Any reporting required by a competent authority or regulator under law or regulation to be undertaken by the Group Auditor.
- Any reporting where in the case of a controlled undertaking incorporated and based in a third country, that reporting is required by law or regulation in that jurisdiction and where the Auditor is permitted to undertake that engagement.
- Any reporting on internal financial controls when required by law or regulation;
- Any reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial statements;
- Provision of any reports, required by or supplied to competent authorities / regulators supervising the audited entity, where the authority / regulator has either specified the Auditor to provide the service or identified to the entity that the Auditor would be an appropriate choice for service provider; and
- Provision of services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: the provision of such services is time critical; the subject matter of the engagement is price sensitive; and an it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the Auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence.

2.2 Services not required by law or regulation – subject to non-audit services fee cap

Non-audit services are assurance services or other work provided by the Auditor in their role as the appointed Group Auditor's where their independence is not compromised but where the understanding of the entity obtained by the Auditor is relevant to the service provided. The types of services this includes is limited to the following:

- Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation;
- Where not otherwise required by law or regulation, non-audit and additional services, as defined in the FRC Ethical Standard 2019 provided as Auditor of the entity, or as reporting accountant, in relation to information of the audited entity for which it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the Auditor is relevant to the service, and where the nature of the service would not compromise independence;
- Extended audit or assurance work that is authorised by those charged with governance performed on financial or performance information and/or financial or operational controls, in an entity relevant to an engagement or a third-party service provider, where this work is closely linked with the audit work;

- Additional assurance work or agreed upon procedures, authorised by those charged with governance performed on material included within or referenced from the annual report of an entity relevant to an engagement;
- Reporting on government grants;
- Reporting on covenant or loan agreements, which require independent verification, and other reporting to third parties with whom the entity relevant to an engagement has a business relationship in accordance with Appendix C of the FRC Ethical Standard 2019;
- Services which have been the subject of an application to the Competent Authority in accordance with Regulation 79 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177); and
- Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards.

3. Approval of Auditor Fees and Spend

All Auditor fees and spend for the Group are approved by the Audit Committee. The Audit Committee is responsible for:

- Agreeing the statutory audit fee and scope of the statutory audit and considering where the level of fees is appropriate to enable the audit to be conducted to the standards required.
- Authorising the engagements (either directly or through delegated authority to Group management) of all audit related and non-audit services to the Group prior to the commencement of such services.
- Monitoring annual estimates/accruals of spend on audit, audit related and non-audit services at each of its meetings.

Group management and the Auditor are required by the Audit Committee to report details of the types of engagements of services agreed including related fee spend (irrespective of any limit) regularly at each Committee meeting.

3.1 Non-Audit Services - Approvals

Any other non-audit services undertaken by the Auditor, or any subsidiary auditor whose work the Auditor relies upon, requires the specific approval of the Audit Committee ahead of any engagement taking place.

For amounts where fees for the engagement are below £100,000 (or equivalent) approval is delegated by the Audit Committee to Group management as follows:

- Up to £50,000 approval by the Group Financial Controller.
- Above £50,000 and below £100,000 approval by the Group Financial Controller and further approval from either the Deputy Chief Financial Officer or Chief Financial Officer.

All amounts where fees for the engagement are above £100,000 require specific and direct approval from the Audit Committee itself.

There is no minimum fee level below which the non-audit services approval requirement does not apply.

3.2 Non-Audit Services - Fee Cap

There is a monetary value cap on any fees where the Auditor is engaged by the Group in the provision of any non-audit services which is based on 70% of the average of the audit fees for the preceding three years.

The cap is to be calculated at two levels: at the UK (statutory audit) level and at the network level in accordance with the FRC's revised Ethical Standard for Auditors (effective 15 March 2020), and as updated by new standards from time to time.

This cap is applicable for all engagements made with the Group and the Auditor as from 1 October 2019 onwards and is based on the average of audit fees for the three preceding years ending 30 September.

4. Appointment of the Group Auditor

The Audit Committee shall consider and make recommendations to the board, to be put to shareholders for approval at the AGM in relation to the appointment, re-appointment and removal of the Group's Auditor.

The Audit Committee shall arrange for the Group's audit services to be put out for tender at least every 10 years and there will be a change in the Auditor at least every 20 years.

The Audit Committee shall ensure that the recommendation after an audit tender process includes at least two firms, with a clear and justified preference for one.

5. Rotation of Audit Partners

The Audit Committee is responsible for monitoring Auditor compliance around the rotation of audit partners.

The Group requires that the Auditor comply with relevant UK legal ethical and professional guidance on the rotation of audit partners. This is to provide an appropriate balance between effectiveness and efficiency, risk management, independence and credibility of the Auditor.

In line with guidance the Policy requirements is for rotation of the lead engagement audit partner and key audit partners responsible for the statutory audit of material subsidiaries after a maximum period of five years and with no return for at least five years. Other key partners involved in the engagement, including those involved in the audit of subsidiaries are required to rotate from their position after a maximum period of seven years and with no return for at least two years.

6. Responsibility of the Auditor

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

7. Other Responsibilities of the Audit Committee

In addition to the responsibilities identified within this Policy in relation to agreeing and reviewing Auditor fees and spend, Auditor appointment and rotation of Audit Partners the Audit Committee are responsible for:

- Approving the terms of audit engagement with the Auditor, including any engagement letter issued at the start of each audit and the scope of the audit.
- Assessing annually the Auditor's independence and objectivity in line with any relevant UK professional and regulatory requirements and as required by its terms of reference, document its position on this matter, and address any changes to this Policy or situation as necessary.
- Assessing annually the Auditor's qualifications, expertise, resources and the effectiveness of the audit process including their own internal quality procedures and responses to any regulatory findings.
- Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the Group, its management and Directors (other than in the ordinary course of business).

8. Hiring Policy

The Group and the Auditor agree on a restricted hiring policy as defined below:

- The Group will not hire any employees of the Auditor who have had involvement in the audit of the Group within the last two years.
- The Auditor will not hire senior management from the Group who has had involvement in the audit of the Group within two years following termination of their employment agreement with the Group.

9. Hospitality

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

This includes all hospitality involving attendance at popular sporting, musical or other entertainment events and 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.

10. Policy Disclosure

The Group will disclose its Policy on Auditor Independence on its website.

The Group's Annual Report & Accounts will disclose the results of the Audit Committee's annual assessment of the effectiveness of the Auditor and Auditor's independence, together with details of all remuneration paid to the Auditor in relation to audit and non-audit services during the specified reporting period.

11. Effective date

This Policy was approved on 10 November 2021.