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# GLOBAL TAX STRATEGY

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Philip Morris International's (PMI's) Global Tax Strategy defines our approach to managing our tax obligations in every country where we operate. It also sets out our strategic objectives in the tax area and the guiding principles which we follow in achieving these objectives.

The approach and principles set out in this Global Tax Strategy are further detailed in the PMI's Global Tax Documents, including all global and affiliate tax policies, standards and guidelines. The Global Tax Documents are designed to ensure clarity regarding the roles and responsibilities in tax matters, involvement of the PMI Tax Department, tax reporting and procedures, tax records and documentation, etc.

The Tax Strategy and its implementation are the responsibility of the PMI Tax Department, a centralized fit-for-purpose global organization led by VP Tax who reports to PMI's Chief Financial Officer.

This Tax Strategy is approved by the PMI Board of Directors and will be reviewed regularly.

## PRINCIPLES

PMI's tax strategy approach is to ensure that our tax obligations are paid in a sustainable manner balancing the interests of our various stakeholders, including our consumers, investors, governments and the communities in which we do business.

### PMI approach to tax is based on the following principles:

- We commit to complying with the spirit as well as the letter of the applicable local and international rules and regulations, including accurate and timely fulfilment of our tax reporting and disclosure obligations.
- Our tax strategy is aligned with and stems from the company's business strategy. Business decisions are not determined by tax considerations alone.
- We pay taxes commensurate with the activities we perform and substance we have in a particular country. We conduct all intercompany transactions on an arm's-length basis in accordance with the current OECD transfer pricing guidelines. Cross-border transactions involving the intercompany sale of goods occur in line with the Customs Valuation Agreement.
- We pay taxes which are legally due in the countries where we operate. We aim to be efficient in our tax positions and our tax planning is always built on strong business rationale or business purpose and is assessed from the tax risks perspective. We do not have in place any contrived tax structures. We also do not abuse tax havens and do not operate "letter box" companies.
- We ensure that all tax-related decisions are taken with due professional care and diligence and are properly documented and reported.
- We seek to build transparent and constructive relationships with the tax authorities in the countries in which we operate. We also encourage development of the tax administrations' capabilities and overall improvement of the tax systems.



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## TAX GOVERNANCE

PMI has implemented the governance framework which sets out clear accountabilities for the management of tax risks and tax planning. PMI's strategic objective is to maintain a comprehensive, effective and practical tax risk management program, shared best practices, a structured and documented control framework, appropriate planning and coordinated decision making.

**To achieve this objective, we have developed the tax governance framework which includes:**

- Clearly defined roles and responsibilities with respect to tax matters, ensuring global consistency and standardization to the extent possible.
- Global Tax Risk Board, a committee within PMI Tax Department, which meets regularly to review the organizational transformation and location plans and assess the potential corporate tax risks related to the location of PMI employees.
- Close contact and coordination between the PMI Tax Department and other PMI departments and teams. PMI colleagues consult with the PMI Tax Department on all important transactions, whether recurring or new, as well as on business structures and operations involving other PMI affiliates or unrelated parties. For new business activities, the PMI Tax Department is involved in every step of the process, from the setup of business models and agreements to discussions with tax authorities. The PMI Tax Department determines positions, exposures and actions regarding material, non-routine tax or customs matters.
- PMI's Global Tax Documents on tax reporting and procedures which are designed to ensure that we have effective and predictable tax compliance processes and controls in place.
- PMI Tax Compliance Program which establishes an overarching framework for the management of global tax compliance and risk across the company. This program includes guidance on defining roles and responsibilities, personnel training and development, involvement of tax advisers, master data management, contract management, interacting with tax authorities and preparing for audits. It also provides guidelines for specific tax areas, including indirect taxes and customs topics, corporate income tax, withholding taxes and transfer pricing.
- Roles and clear responsibilities for the appropriate creation, retention and/or oversight of all relevant local tax records and documentation in each affiliate.
- System for the continuous professional training and development for the PMI Tax Department personnel.
- Regular review and update as needed of this Global Tax Strategy and the Global Tax Documents to ensure they take into account changes in the internal or external environment.



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## TAX RISK MANAGEMENT

Having a comprehensive, effective and practical tax risk management program is an integral element of our Global Tax Strategy. Our tax risk management program is aimed at ensuring that we have effective processes in place to identify and assess the tax risks and to develop and implement proper response measures to address these risks. We actively use the available tools to achieve tax certainty for material transactions.

- **Tax Rulings**

When it is relevant and feasible, we have upfront conversations with tax authorities in the countries where we operate to minimize uncertainty on both sides. Tax rulings provide a higher level of certainty not just for us but also for tax authorities.

- **Advance Pricing Agreements**

PMI conducts all transactions on an arm's-length basis in accordance with current OECD transfer pricing guidelines. PMI seeks to increase its tax certainty by entering into Advance Pricing Agreements (APAs). An APA is an agreement entered into between a taxpayer and the tax authorities of one (unilateral APA) or more (bilateral or multilateral APA) jurisdictions. It confirms the selection and application of the transfer pricing method used to set up the prices in intercompany transactions.

- **Cooperative Compliance and Similar Programs**

Where available and relevant, PMI joins the cooperative compliance, horizontal monitoring or similar programs with tax authorities, with the

aim of establishing PMI as a low-risk taxpayer in the relevant jurisdictions. These programs establish a relationship of trust between the tax authorities and taxpayer and increase certainty on relevant tax issues.

- **Outside Counsel Opinions on Tax Positions**

Where there is sufficient uncertainty over the appropriate tax treatment or a potentially significant impact of a particular transaction, PMI obtains external counsel opinions.

- **Regular Internal Reviews**

On an annual basis the PMI Tax Department carries out internal reviews of the selected corporate income tax and indirect tax topics at the selected affiliates following the risk-based approach. These internal reviews are designed in a way to ensure that the majority of the top 20 markets are reviewed every five years. The reviews are focused inter alia on assessing tax positions and/or tax processes as well as supporting documentation on a sample basis to ensure tax compliance and good tax risk management practices.

## DEALING WITH TAX AUTHORITIES

**Our working relationships with governments and fiscal authorities are conducted in a professional and collaborative manner based on the following principles:**

- Compliance with the relevant disclosure requirements and transparency regarding our business operations as required by law, including timely responding to the requests during audits or other procedures;
- Proactive approach in our dealings with tax authorities with the aim to achieve tax certainty, minimize disputed issues and, when possible, reach agreement on the disputed issues; and
- Maintaining contact with tax authorities to ensure they have a good understanding of our business and our approach to tax matters.



## DEFINITIONS

### ***PMI Tax Department***

Vice President Tax and their direct and indirect reports as reflected in the PMI organization chart, including the designated responsible for Taxes in an affiliate or for a market, and the Tax teams within PMI Global Business Solutions.

### ***PMI's Global Tax Documents***

Tax Documents created by the PMI Tax Department, providing guidance and risk management tools around taxation.