



## **Smith+Nephew Tax Strategy**

### **September 2020**

#### **Introduction**

Smith+Nephew is a global medical technology business supporting healthcare professionals in more than 100 countries in their daily efforts to improve the lives of their patients. We have around 18,000 employees across the world and annual sales in 2019 exceeded \$5 billion.

Our Code of Conduct and Business Principles ('Code') sets out the legal and ethical principles that we apply to our business and defines our relationships with all of our stakeholders, which includes tax authorities. Our Core Values of Care, Courage and Collaboration include the way in which we interact with both internal and external stakeholders, the latter including patients, customers, healthcare professionals, authorities and the public by acting in an honest and fair manner in all aspects of our operations, while seeking to play an integral role in improving people's lives and producing more effective and efficient health outcomes.

#### **Tax strategy**

Our tax strategy is aligned with the overall Group strategy and we seek to manage tax cost and risk accordingly in line with our Code and Core Values taking into account our external reputation and views of stakeholders. Our approach is to be compliant with the tax laws in the countries in which we operate and our transfer pricing policy is designed to ensure that country profits (and associated tax thereon) align with economic value creation.

#### **Risk management and governance**

The Smith+Nephew risk management process is an integral part of our business. Individual risk owners within the business areas carry out day-to-day risk management activities within the framework established by our Executive Committee, including the identification and documentation of risks, undertaking risk assessments and risk mitigation. Tax risk management is part of this process.

The Smith+Nephew Board, responsible for approving Group strategy, has delegated responsibility for tax strategy to the Group CFO. The Group Audit Committee, consisting of members of the Board, review annually the Group tax strategy and management of tax risk and monitor performance via quarterly reporting.

The tax team at Smith+Nephew reports directly to the Group CFO and manages the day-to-day tax affairs of the Group, supported by Group and country-level finance teams, and external advisors as required.

#### **Tax compliance**

We are subject to various taxes in the many different countries in which we operate and we aim to submit accurate tax returns to the relevant tax authorities on a timely basis. We seek to pay the right amount of tax in accordance with the tax laws in all of the territories in which we operate. Members of our global tax team are dedicated to this activity in conjunction with engagement with external advisers. Our transfer pricing policy, also managed by our group tax team, aims to ensure that transactions between Smith+Nephew affiliates take place on an arm's length basis in accordance

with OECD transfer pricing principles and local country tax legislation. We keep abreast of and regularly review for any changes in tax legislation, other requirements and generally accepted best practices, and adapt our compliance processes accordingly.

### **Tax planning**

In conducting its business activities, Smith+Nephew often has a choice of how to structure the transactions involved. For a given transaction, for example an acquisition or disposal, the different tax implications of each option are one of the many factors that are taken into account when deciding on the structure to be used. Where there is tax uncertainty, for example due to interpretation of tax legislation or relevant case law, we seek appropriate external advice and consider the tax risk associated with the relevant tax authority taking a different view. Structures that do not reflect the economic or commercial reality of the transaction are not considered. The Finance and Banking Committee and/or the Board review significant transactions before approval.

We also take advantage of available tax incentives and reliefs in the countries in which we operate, for example, Research and Development tax credits and UK Patent Box relief.

### **Level of risk that we are prepared to accept**

We do not engage in high risk or aggressive tax planning. However, as a multinational corporation, we accept a certain level of tax risk due to uncertainties in tax legislation and the increasing complexity of the international tax environment, particularly with regard to transactions between our affiliated companies. We seek to mitigate and manage this tax risk through our approach to tax compliance, tax planning and tax risk management.

### **Dealing with tax authorities**

In line with our Code, we act in an honest and fair manner when dealing with tax authorities. Our approach is to have an open and transparent relationship and, in the event of a disagreement, we seek to resolve this through provision of information and constructive dialogue, using litigation as a last resort.

### **UK legislation**

This document fulfills the UK legislative requirements of Finance Act 2016 Schedule 19, paragraph 16(2).