



# PCCW LIMITED

(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)  
(STOCK CODE: 0008)

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# UK TAX STRATEGY

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## **UK TAX STRATEGY**

This document sets out our tax strategy of our group companies as complying with paragraph 19 of Schedule 19 of the Finance Act 2016 of the United Kingdom. Periodic review and update will be performed.

By establishing the tax strategy, we aim to:

- Comply with all relevant statutory tax obligations and BEPS<sup>i</sup> requirements
- Identify and manage tax exposure in the evolving tax environment
- Ensure tax compliance requirements are accurately and timely filed
- Enhance tax risks awareness in any business decision making process
- Communicate standards of behavior expected for tax reporting team
- Maintain a responsive and collaborative relationship with tax authorities and governmental bodies

### **A. Code of conduct**

The following roles and responsibilities are expected from the UK Finance team:

1. Observe relevant new tax laws, rules, regulations and reporting requirements
2. Review tax positions on issues arising from business conducts of the Group periodically
3. Cooperate and respond to tax authorities questions and queries in a timely manner
4. Strive to improve transparency in terms of tax reporting and tax positions adopted by the Group
5. Exercise professional judgments and establish evidence and support for tax positions
6. Adhere to the Group's Corporate Governance and Corporate Social Responsibility Policy

### **B. Tax compliance and reporting**

In line with our Group's Corporate Social Responsibility Policy, UK Finance team and Group Tax team are obliged to:

1. File tax returns, settle tax payments, respond to tax authorities' correspondence or queries and statutory tax obligation in a timely manner
2. Prepare and provide documentations to support the Group's tax positions and treatments on tax matters or issues as required by the applicable tax laws and regulations
3. Computation of tax shall be calculated in a professional manner
4. Fulfill BEPS requirements, including the preparation of Master File, Local File and CbCR<sup>ii</sup> as required by the respective countries/jurisdictions in a timely manner
5. Tax payments shall be settled duly and on time to avoid additional costs (such as interest, surcharge and penalty)
6. Observe and respond to changes in tax laws and regulations on tax compliance and reporting in countries/jurisdictions at where the Group operates

7. Advice and assistance should be sought from external advisors on material transactions and whenever necessary expertise is not available in-house.

### **C. Approach to risk management and governance arrangements**

UK Finance team and Group Tax team have taken the following approaches to manage tax risks with regards to the Group's overall strategy and Corporate Social Responsibility Governance:

1. Perform technical research, assess tax risks and consequences, gather facts and evidence and obtain third party advisors' opinion before forming tax positions or reaching conclusions on tax issues
2. Engage external professional or advisors as needed
3. Keep updated on changes in tax regulations and compliance requirements and respond proactively
4. Alert management if significant tax dispute or uncertainty arisen and review internal procedures and records to assess tax risk areas and establish tax defense
5. Encourage sharing of experience among tax professionals to establish consistent approach and position
6. Communicate and encourage business units to approach Group Tax for tax advice and guidance for tax issues arising from business operations and transactions

### **D. Attitude towards tax planning**

The Group believes commercial and economic substance shall be the basis for our business arrangements. Our group structure is established with the purpose of reflecting the diversification of businesses of the Group and functions of each business unit. Tax planning shall be conducted with the aim to enhance tax efficiency (e.g. prevent double taxation) by making optimum use of all permissible allowances, deductions, concessions, exemptions, rebates, exclusions and so forth, available under the applicable tax law and regulations.

Our transfer pricing policy is established to reflect the functions and risks of each of the entities involved such that income will be taxed accordingly by the relevant tax authorities in an efficient and fair manner. We aim to ensure that our profit will only be taxed once.

### **E. Level of risk that the group is prepared to accept**

Tax risks always exist for tax issues not addressed by current tax regulations or for matters where tax authorities and our Group have conflicting opinions. Tax risks are also part of business risks. We cannot totally avoid but try to minimize tax risks. We only accept tax risks where we have technical advice received from subject matter experts to support our positions.

Group's reputation and tax authorities' relationship are also factors for determining the level of risks the Group is willing to accept. We will not sacrifice the Group's reputation and jeopardize our good working relationship with the tax authorities. To mitigate tax risks on significant issues, we will seek advice from appropriate tax experts and will try to liaise with governing tax authorities where uncertain tax issues or conflicting opinions exist in order to reach for agreement on tax treatments and apply for tax rulings, if possible.

### **F. Approach of the group towards its dealings with HMRC<sup>iii</sup> and other tax authorities**

Our Group believes that transparent and open communication and collaboration with HMRC and other tax authorities are essential in establishing good working relationship. These relationships could be achieved by our practice and attitude:

1. Identify responsible tax officers in charge of the Group's tax matters in UK
2. Designate tax or finance staff to be responsible to communicate with HMRC and governing tax authorities to ensure effective communication

3. Cooperate with tax authorities in providing information and answering enquiries to avoid delay in settling tax issues or dispute
4. Communicate proactively with HMRC on uncertain tax issues and latest development in regulations or practices.
5. Establish mutually respectful relationship with HMRC and other tax authorities
6. Understand local practice, tax structure and reporting hierarchy of HMRC and other tax authorities

**G. Strategy embedded across the organization and supported by adequate systems and processes**

The Group's tax strategy is communicated to the Group's employees via our internal policy and reporting line:

1. Group Tax team is part of the finance function and reports to Group Chief Financial Officer
2. Group Tax team cooperates with Finance team and/or Business Units to review tax issues affecting the structure of the group and material business transactions before implementation
3. Conduct regular Group Tax team meetings to communicate the Group's tax positions on significant tax issues and update on significant changes in tax laws and requirements
4. Prepare entities' annual tax compliance checklist for Group Tax team's review and assessment on the tax compliance status of each entity
5. Employees are required to abide by the Group's taxation policy and transfer pricing policy set out in the Group Policy and Procedure in decision making process
6. All Business Units are advised to approach Group Tax team for tax guidance or advice if they foresee tax will be an issue for consideration
7. Perform regular internal audit to ensure tax compliance procedure is implemented accordingly and taxation policy and transfer pricing policy are followed in decision making process

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<sup>i</sup> **Base erosion and profit shifting (“BEPS”)** refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations.

<sup>ii</sup> **Country-by-Country Reporting (“CbCR”)** is one of the four minimum standards under the Organisation for Economic Co-operation and Development BEPS Project, which all members of the Inclusive Framework on BEPS have committed to implement. It applies to large multinational enterprise groups and provides tax authorities with high-level information on the global allocation of the group's revenue, profits, taxes and certain economic indicators, to support transfer pricing risk assessment and the identification of other BEPS-related risks.

<sup>iii</sup> **His Majesty Revenue and Customs (“HMRC”)** is a non-ministerial department of the UK Government responsible for administering the tax system, collecting of taxes and duties, paying of certain forms of state support, and overseeing a number of related regulatory regimes.