

Lincoln Electric UK Group – UK Tax Strategy

31 December 2022

Introduction

Finance Act 2016 introduced legislation which requires certain groups to publish their tax strategy, or parts of their strategy, which are relevant to UK taxation. This document sets out the tax strategy of the Lincoln Electric UK Group ('LE UK Group') in accordance with the requirements of *Paragraph 16(2), Schedule 19, Finance Act 2016*.

This published tax strategy covers the following areas (all in relation to UK taxation):

- Approach to risk management and governance arrangements
- Attitude towards tax planning
- Level of risk tolerated
- Approach toward dealing with HM Revenue and Customs ('HMRC')

The purpose of this document is to set out the LE UK Group's policy and approach to UK taxation. This document covers all UK companies within the LE UK Group as listed below:

- Lincoln Electric UK Holdings Limited
- Lincoln Electric (U.K.) Limited
- Weartech International Limited
- Fori UK Limited

This document has been approved by the Board of Directors of Lincoln Electric UK Holdings and applies to the accounting year ended 31 December 2022. We review our tax strategy annually, and any amendments are approved by the Board.

The ultimate parent company of the LE UK Group is Lincoln Electric Holdings, Inc. a company incorporated in the USA. Lincoln Electric Holdings, Inc. was founded in 1895 in Ohio, US and is renowned for providing cutting-edge solutions to customers and pioneering new technologies in its industry. For over 125 years, the worldwide group has been a world leader in the design, development and manufacture of arc welding products, robotic arc welding systems, plasma and oxyfuel cutting equipment and has a leading global position in the brazing and soldering alloys market. Known as the Welding Experts®, our solutions are used across diverse industry sectors in over 160 countries. Headquartered in Cleveland, Ohio, the worldwide group operates 56 manufacturing locations in 19 countries.

The LE UK Group's business activities are subject to various taxes, including corporate tax, employment tax, VAT and property taxes. These taxes are collected and contributed to the societies where we operate.

The LE UK Group are committed to creating long-term shareholder value through the responsible, sustainable and efficient delivery of our key business objectives. We therefore adopt an approach to tax that supports this strategy and balances the interests of our key stakeholders – employees, suppliers, customers, investors and the wider community. We aim to pursue a tax strategy that is aligned with the LE UK Group's overall business strategy and code of conduct as we consider that this will protect and enhance shareholder value and uphold the LE UK Group's reputation.

Approach to risk management and governance arrangements

The UK's tax affairs are managed by the UK Finance Controller who is responsible for the day-to-day financial operations of the LE UK Group, including tax and treasury.

The Director of International Tax based in the USA coordinates the worldwide group's tax function including, company-wide tax planning and strategy, and the various in-country efforts for local tax return compliance and

audit. Whilst the day-to-day operations are generally left to the local UK management team, they are overseen by the Regional Finance Director and European controller.

The LE UK Group's tax compliance obligations are performed by external tax advisors who are also responsible for preparing and filing the relevant tax filings and reviewing the internally prepared corporate tax provisions. The LE UK Group engage these advisors to manage, coordinate, prepare and file its worldwide corporate income tax returns. The advisors in turn delegate the specific country-by-country filings to their local affiliates in each country, the UK included. The LE UK Group continue to receive regular alerts from their UK advisors during the course of their compliance engagement (as well as from other members of the UK accounting profession), from which relevant UK legislative updates are provided.

During this process, external tax advisors identify any items or transactions which may give rise to a UK tax risk. The LE UK group mitigates risks arising through new tax developments in international and domestic tax legislation through ongoing communication and consultation with their network of tax and legal advisors. Any UK tax risks identified through the update of any legislation or upon review of the relevant tax filings, are then brought to the attention of the LE UK Group's management team for further consideration.

In accordance with the OECD's BEPS Action Plan 14 the worldwide group prepares an annual Master File and a Country-By-Country Report. These documents are available to be shared between local governments. As such, the LE UK Group prepares a UK local file and the relevant Country-by-Country UK filing notification.

Transfer pricing is conducted at arm's-length which is verified by external tax advisers to ensure compliance with the tax law.

The LE UK Group's third-party advisors engaged to coordinate the LE UK Group's tax compliance has continued to make regular tax presentations and conduct tax training to staff in a similar capacity to 2021, conducted remotely during 2022. The LE Group recognises the ongoing development of staff within the UK finance team is also key to managing risk.

Tax risks are controlled by various accounting procedures and controls. The LE UK Group is subject to an annual internal audit focussing on the specific controls in place, such as appropriate authorisation procedures and segregation of duties. There have been no audit findings discovered during the year and the above-mentioned controls remained in place throughout 2022. During year 2022 the internal audit from corporate started in November and is still ongoing. No findings have been identified so far.

The LE UK Group is under continuous audit, where material tax transactions are reviewed on a quarterly basis. This approach continues to be the case for 2022. Such reviews cover legal and tax compliance, interpretation of pertinent tax laws, quantification of benefits and costs, and an assessment of tax risk. The LE UK Group regularly engages with external tax advisers to seek advice and minimise tax risks as appropriate.

Attitude to tax planning

The LE UK Group continues to seek greater transparency to maintain a risk averse profile and has no special tax incentives in place. It seeks to minimise its tax liability through the use of tax efficient incentives and reliefs where appropriate. Guidance is sought from senior management and external tax advisers regarding those acceptable tax savings and benefits that are available and, if significant, approval and sign-off from its parent company, Lincoln Electric Holdings, Inc., is sought. In light of recent developments (e.g. BEPS, ATAD, MLI), the LE UK Group seeks greater transparency, which further enhances its risk-averse profile.

The LE UK Group has a low appetite for risk and does not enter into any aggressive or abusive tax planning. Any tax planning is performed under arm's-length terms, for example intercompany cross-border borrowing is carried out in accordance with the same terms and conditions a third party would use. In all cases of cross border tax planning initiatives, the LE UK Group realises that a complete and thorough understanding of UK tax law is critical to the success of any planning undertaken. All UK tax planning initiatives are developed with third party UK tax advisers and tax experts in the UK legislation.

An Effective Tax Rate (“ETR”) is derived by taking into account items of income and expense, many of which are deductible, non-deductible, taxable or non-taxable. In doing so the LE UK Group seeks to align its ETR at the US statutory rate, being either slightly above or below. In the LE UK Group, the ETR is therefore not a product of advanced planning, but rather is constructed after considering items of income and expense incurred during the regular course of business and applying tax principles thereto. The worldwide group’s ETR is then compiled and monitored by the US-based corporate tax group and is reviewed quarterly by the US Group’s external statutory auditors.

Significant tax planning strategies and initiatives are presented to the UK senior management team who then vet the costs, risks and associated benefits of the planning. Planning which is deemed to be material and significant in scope is presented to the UK Board of Directors for advance approval and is directed and coordinated by the Group’s headquarters. Any tax planning undertaken is rational and prudent, with an eye towards adhering to both the letter and the spirit of the law. The LE UK Group seeks to maximise shareholder returns with tax planning which has strong economic substance and appropriate arm’s-length dealings. A contribution of Weartech’s assets has been made with no tax benefit (tax neutral).

The LE UK Group’s statutory auditor demands due diligence in all phases of tax planning and undertakes quarterly reviews of material tax transactions. In addition, with the implementation of various cross-border reporting protocols (including DAC6, BEPS Action points such as CbCR etc.) all transactions with a tax implication are subject to reporting and governmental review. As a result, all tax planning entered into has ultimately been vetted both internally and by third party advisers. A monthly meeting is held with the Regional Controller and corporate tax department to assess any intercompany transaction at the light of DAC-6 regulation.

Level of tax risk

On the basis that the UK Group undertakes very little tax planning, the LE UK Group is deemed to be risk averse from a tax risk perspective. The LE UK Group does not engage in aggressive tax planning. Tax risks may occasionally arise in the UK due to its international operations; however, the LE UK Group engages third-party tax advisors to help manage these risks. The third-party tax advisors also carry out the companies’ tax compliance obligations who then bring tax issues to the attention of the UK management team should they arise.

The UK Board of Directors come from a variety of backgrounds and draw upon their own experience and knowledge in order to benchmark the performance of the LE UK Group. They expect the financial results of the LE UK Group to be on par with its peers in the industry. The LE UK Group’s other key stakeholders who have input into risk management (aside from the Board) are the company’s statutory auditors and the UK tax authorities (“HMRC”).

Other stakeholders expect the activities of the LE UK Group to be carried out in accordance with UK law, including tax law, and do not exert any influence over the tax risks of the business. There have been no changes during 2022.

Approach toward dealing with HMRC

The LE UK Group acts in accordance with all relevant laws and disclosure requirements as necessary to ensure compliance with the UK tax law. This remains the case for FY 2022.

In order to achieve a low risk status, in accordance with the UK tax authorities Tax Compliance Risk Framework, the LE UK Group aims to:

- Be open and transparent with HMRC in real time about how we tax compliance risk across all relevant taxes and duties;
- Raise significant compliance issues, uncertainties and/or irregularities with HMRC in real time;
- Promptly provide full, accurate and helpful answers to HMRC queries;
- Be aware of our obligations across all taxes and duties, seeking assistance as necessary and providing appropriate resources to deal with those obligations;

- Have clear accountabilities up to and including the Board for the management of tax compliance risk and tax planning;
- Have a history of accurate and timely returns, declarations, claims and payments across all relevant taxes and duties;
- Have appropriate tax accounting arrangements in place;
- Not be involved in tax planning other than that which arises from genuine commercial activity;
- Not structure transactions in a way which gives a tax result contrary to the intentions of Parliament;
- Tell HMRC about significant transactions involving innovative interpretation of tax law and fully disclose any legal uncertainty; and
- Ensure that the business is not involved with illicit trades.

The LE UK Group engages third-party tax experts to advise on all taxes affecting them in the UK and to prepare the necessary compliance obligations for timely reporting to the UK tax authorities. The LE UK Group regularly receives external communication from their third-party tax advisers containing pertinent information and UK legislative updates which are then analysed and implemented.