

ITW –United Kingdom Tax Policy Document

Financial year ending December 31, 2018

Introduction

The publication of this Tax Policy statement is regarded as satisfying the statutory obligation under Part 2, Schedule 19, Finance Act 2016 for all UK companies that are either direct or indirect UK subsidiaries of Illinois Tool Works Inc in the ITW group of companies.

This Tax Policy Document is aligned with ITW's Code of Ethics and ITW Principles of Conduct, and is approved by ITW's senior management.

For an introduction to ITW, please click here: <http://www.itw.com/about-itw/>

1. UK Tax Risk Management Principles

"It is ITW's policy to comply with all applicable laws, rules and regulations. ITW exists within a number of jurisdictions that includes local, national and international laws. Violations of these laws can be costly to ITW, damage our reputation and subject the company or the employee or director to criminal or civil penalties." - [Principle 6 of ITW's Principles of Conduct](#)

ITW is committed to operating in a tax compliant manner in the different jurisdictions in which we are present. The taxes we pay in the UK form part of the economic contribution we make to the country through our local business operations. We endeavour to ensure that we pay the right amount of tax in the right place at the right time.

As part of a multi-national business operating in a diverse range of sectors which are subject to global and regional economic conditions and the changing demands of our customers, ITW recognises that change in the business is inevitable; and that means that the amount of tax we pay in the UK will change in line with commercial decisions we make about our business and will also be impacted by the decisions of our customers.

The ITW Board of Directors has oversight responsibility over ITW's compliance and risk management, which includes oversight over tax compliance and tax risk. Responsibility for oversight of financial, accounting and compliance risk, including tax, is

delegated to the Audit Committee, as described in the [Audit Committee charter](#).

Day to day responsibility for the operation of the tax function rests with the local tax and finance departments. The UK Country Controller, as the Senior Accounting Officer, takes direct responsibility for the overall assessment and mitigation of UK tax risks.

Tax governance within ITW works through a set of documented procedures and controls that are tested on a regular basis. The control testing assists in meeting our Senior Accounting Officer obligations. Further, Item 8 of our 10-K filing discusses the effectiveness of our internal controls over financial reporting using the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control–Integrated Framework (2013). The strength and integrity of ITW's internal controls and financial reporting processes are overseen by our Audit Committee and they review the conclusions reached by our external auditors who test these controls, and who give their findings on their effectiveness in Item 8.

[Audit Committee charter](#).

2. Attitude towards Tax Planning

ITW's focus is on executing our Enterprise Strategy, which drives the performance of our commercial business. The taxes we pay are aligned with our economic and business activities. The tax function

supports the commercial needs of ITW's business, to ensure that ITW's commercial decisions are carried out in a tax efficient and compliant manner. Where tax reliefs or incentives are available, we may decide to apply for these under the provided legislation, in the manner in which it was intended by the tax authorities and statute.

ITW does not undertake contrived or abnormal tax planning.

3. ITW's Tax Risks

ITW's Corporate Governance sets out the Code of Ethics applicable to all ITW staff "...having responsibility in connection with the preparation, review, or disclosure of any aspect of the Company's financial statements or other financial information or data." – Introduction to [ITW'S Code of Ethics](#).

"Each covered person is required to familiarize himself or herself with all the laws, rules and regulations that apply in the areas within his or her responsibilities. Each covered person is expected to comply with all applicable laws, rules and regulations and to ensure that ITW complies with such laws, rules and regulations in all activities within the scope of such person's responsibilities." - Principle 3 of [ITW's Code of Ethics](#)

The ITW Code of Ethics, combined with ITW Principles of Conduct, set a very clear expectation for staff and the high standards of ethical conduct which ITW demands of them.

ITW's staff in the UK are responsible for managing the tax compliance obligations of our UK legal entities. Due to the scale of our business and the volume of tax obligations it is inevitable that tax risks will arise and ITW recognises that in some cases there can be complex laws and interactions of rules that may require support to assist the local teams in determining the appropriate tax treatment.

ITW's UK staff are supported by the ITW Corporate headquarters and use external advisers where specialist support is needed. In this way ITW manages its tax risks by ensuring the necessary resources are available to assist in determining the tax treatment that should apply.

4. Relationship with HM Revenue & Customs

The OECD has developed a framework for co-operative compliance which is described as an "...approach based on co-operation but with the purpose of assuring compliance, which is to say payment of the right amount of tax at the right time." ITW operates in line with this and has a constructive and collaborative relationship with HMRC. Where practical, we engage in upfront discussions with HMRC in relation to significant transactions, with an aim towards certainty wherever possible.