

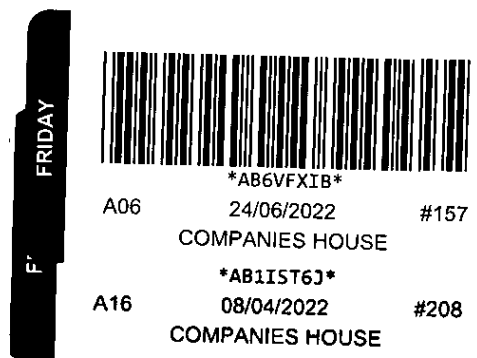


ANNUAL REPORT AND ACCOUNTS 2021

PARENT ACCOUNTS FOR NERUDIA CONSULTING LIMITED
- 094456383



SUBSIDIARIES EXEMPTION STATEMENT - PAGE 224



**SET UP FOR
SUCCESS**

We are Imperial Brands,
a global consumer
organisation and the fourth
largest international tobacco
company, operating across
120 markets.

OVERVIEW

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PERFORMANCE MEASURES USED THROUGHOUT THE REPORT

Reported (GAAP)

Complies with International Financial Reporting Standards and the relevant legislation.

Adjusted (Non-GAAP)

Non-GAAP measures provide a useful comparison of performance from one period to the next. Reconciliations can be found in notes 3, 6, 8, 10 and 31.

Constant currency basis

Removes the effect of exchange rate movements on the translation of the results of our overseas operations. We translate current year results at prior year foreign exchange rates.

Market share

Market share data is presented as a 12-month moving average weighted across the markets in which we operate.

Stick equivalent

Stick equivalent volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.

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**Imperial Brands is transforming. In January 2021
we announced a new strategy, which is supported
by new ways of working to enhance our culture.**

**By putting the consumer at the centre of the business,
we seek to strengthen sustainable delivery and unlock
long-term value for all our stakeholders.**

**For more information
please see
www.imperialbrandsplc.com**

TRANSFORMING TO UNLOCK VALUE

Driven by insights and data, we seek to meet the expectations of adult smokers by leveraging our international and local brands to serve their needs. We are refining our ways of working and fostering our challenger mindset.

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TRANSFORMING OUR BRANDS

Our portfolio of brands connects with adult smokers in all the key tobacco and next generation product (NGP) segments. We invest in brand innovation to meet evolving consumer preferences.

4th largest

INTERNATIONAL TOBACCO
BUSINESS

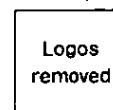
CIGARETTES / FINE CUT



CIGARS



SNUS



NGP



TRANSFORMING OUR MARKETS

We are focused on five priority combustible markets representing around 70% of our adjusted operating profit. We're investing in improved sales execution and brand building to drive sustainable growth.

120

MARKETS

UK

JPS
Golden Virginia
Lambert & Butler
Carlton

Germany

JPS
West
Gauloises
Davidoff

Spain

Ducados
Fortuna
Nobel
West

USA

Winston
Kool
Maverick
Backwoods

Australia

JPS
Champion
Riverstone
Parker & Simpson

TRANSFORMING OUR CULTURE

We are changing how we work to focus on the consumer and to align our resources with our strategy, supported by a culture change that is key to our transformation.



27,700

EMPLOYEES*

* Pro-forma number excluding the La Romana disposal. See Note 7 of the financial statements.

WE ARE SET UP FOR SUCCESS

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“

**These results reflect the
good progress we are
making in implementing our
new focused strategy to
transform Imperial.**

”

STEFAN BOMHARD
CHIEF EXECUTIVE OFFICER

OUR PURPOSE

Forging a path to a healthier
future for moments of relaxation and pleasure.

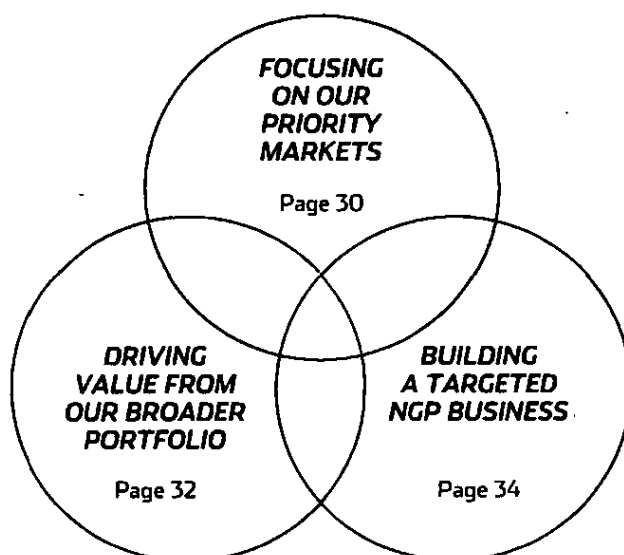
Pages 6-7

OUR VISION

To build a strong challenger business powered
by responsibility, focus and choice.

Pages 8-9

STRATEGIC PILLARS



- **Focus on priority combustible markets**
 - Target increased investment in our largest and most appealing profit pools
 - Focus on defined key operational levers to unlock value
- **Drive value from our broader market portfolio**
 - Efficiently manage broader market portfolio
 - Create global processes and drive best practice sharing
 - Prepare future growth engines
 - Selectively rationalise portfolio
- **Build a targeted NGP business**
 - Focus on heated tobacco in Europe as primary growth engine
 - Turn around vapour business with focus on the US, the UK and France
 - Oral nicotine focus on existing markets

CRITICAL ENABLERS

CONSUMER AT THE CENTRE OF THE BUSINESS

Strengthen critical capabilities: marketing, innovation, digital and consumer insight

Leverage relevant brand portfolio to address key consumer needs

PERFORMANCE-BASED CULTURE AND CAPABILITIES

Embed fact-based and collaborative ways of working

Build a challenger mindset throughout the organisation

Invest in talent and embrace diversity and inclusivity

SIMPLIFIED AND EFFICIENT OPERATIONS

Simplify the organisation through global processes underpinned by technology

Create and embed a performance management framework that will drive agility and accountability in decision-making

BEHAVIOURS

Start with the consumer, collaborate,
take accountability, be authentic, build our future.

Pages 12-13

PURPOSE LED FOR SUCCESS

Our purpose is our guiding light. It defines why we are here, what we are trying to achieve over the long term and the growing contribution we can make to society over time.

FORGING A PATH

This is our commitment to finding a long-term solution for harm reduction. We have started the journey. It will take time, energy and creativity but we are clear on our direction.

HEALTHIER FUTURE

This is our commitment to make a positive contribution to a healthier future for our consumers and society through potentially reduced risk products as well as our commitments to operating responsibly and minimising our impact on the planet.

MOMENTS OF RELAXATION AND PLEASURE

This recognises why our consumers enjoy our products and our role to provide genuine choices in how experiences are delivered.



“

**Our purpose is
forging a path to a
healthier future for
moments of
relaxation and
pleasure.**

”

**MURRAY MCGOWAN
CHIEF STRATEGY AND
DEVELOPMENT OFFICER**

CLEAR VISION FOR SUCCESS

Our vision sets out our medium-term aspirations. It defines our priorities and focus for the next five years and ultimately underpins the delivery of our longer-term purpose.

BUILD A CHALLENGER BUSINESS

This is about the mindset we want to embrace, one that plays to our historic strengths as the smaller player yet faster, more agile and confident.

POWERED BY RESPONSIBILITY

We are committed to operating responsibly in everything we do, respecting our communities and our planet.

FOCUS AND CHOICE

We will be thoughtful in where we allocate resources; these decisions will be based on robust consumer insight to provide adult smokers with the best choices.



“

**Our vision is to
build a strong
challenger business
powered by
responsibility,
focus and choice.**

”

JAVIER HUERTA
CHIEF SUPPLY CHAIN OFFICER

CONSUMER CENTRIC FOR SUCCESS

We believe the world's one billion adult smokers should be respected as active citizens, informed consumers and diverse individuals.

We also think it is important to provide potentially healthier choices that better satisfy the preferences of the consumer.

At Imperial, we see a path to a potential improvement in health outcomes and delivering a better experience for consumers, while continuing to meet the needs of the varied stakeholders who rely upon us.

This is about one billion very different journeys and in order to truly understand and support those individual journeys we are becoming more rigorous and data driven, adopting the best and newest techniques from other consumer goods sectors to deliver against the needs of our consumers.



“

We start with the consumer, focusing on consumer insight and research to ensure we build a portfolio that suits them.

”

ANDY DASGUPTA
CHIEF CONSUMER OFFICER

CULTURE DRIVEN FOR SUCCESS

We have laid the foundations for a performance-driven and inclusive culture which supports the delivery of Imperial's new strategy.

Underpinning our cultural shift is a set of five clear behaviours – how we need to think and act in order to succeed.

***START WITH THE
CONSUMER***

Everything we do starts with the consumer – they are the reason we are here.

***COLLABORATE
WITH PURPOSE***

We work collaboratively with others to deliver better outcomes for all of us.

***TAKE
ACCOUNTABILITY
WITH CONFIDENCE***

We deliver what we promise, and we hold each other to account.

***BE AUTHENTIC
AND INCLUSIVE
TO ALL***

Everyone is welcome. The more diverse we are, the stronger we are.

BUILD OUR FUTURE

We stay one step ahead, and challenge ourselves to be better every day.



“

We launched our five core behaviours which describe how we need to think and act in order to deliver successfully on our ambitions.

”

ALISON CLARKE
CHIEF PEOPLE AND CULTURE OFFICER



Thérèse Esperdy

THÉRÈSE ESPERDY
CHAIR

A CLEAR DIRECTION FOR SUCCESS

DEAR SHAREHOLDERS

2021 was a year of important progress, as we set out our new strategy and began to build the foundations to strengthen performance.

The Board has continued to take decisive action to make the necessary changes with pace. A key focus for the year has been to develop our leadership capabilities, while supporting the executive team in their strategic review.

We have made significant progress in enhancing the composition of both the Board and the Executive Leadership Team (ELT). I am particularly proud of the strong and diverse Board we have now assembled, which is equipped with a compelling mix of skills and experience relevant to Imperial and the challenges and opportunities it faces.

Our new strategy, vision and purpose are a comprehensive plan for change, which we have now begun to implement. I am pleased to report our operational and financial performance for the year has been delivered in line with our expectations, reflecting the early fruits of our more focused approach under the new leadership team.

Strategy update

Our aim is to create a stronger, more agile, consumer-centric company. At our Capital Markets Day in January we set out a clear plan of action that plays to our strengths as the fourth largest global tobacco player and nurtures our strong challenger mindset and culture. Core to our new approach is to place

consumers at the centre of our decision-making so we are better placed to meet evolving consumer needs. This is key to delivering better and more consistent results over time.

Stefan has formed his new Executive Leadership Team and work has started to restructure the Company aligned to the new strategy. Stefan has led this comprehensive review and delivered significant change despite the COVID-19 restrictions.

The Board continues to support and oversee the execution of our strategy and pays close attention to risk management, performance metrics, our ESG agenda and stakeholder engagement.

Capital allocation

Alongside our strategy, we have adopted a clear capital allocation framework to define how we will prioritise capital deployment over the next five years. The Board has carefully evaluated the investment needs of the business, the appropriate capital structure and the best way to maximise returns to shareholders through a progressive dividend policy and by returning surplus capital.

Strengthening the balance sheet remains an important priority so we can reach our target leverage. Achieving this target creates the headroom for a more flexible approach to return surplus capital to shareholders through share buybacks or special dividends, subject to market conditions at the time.

During the first quarter, we completed the sale of our Premium Cigar business, which will raise total proceeds of €1.225 billion. To date, we have realised proceeds of €1.15 billion, which have been used to reduce debt. These proceeds, together with the benefit from the decision in 2020 to rebase the dividend by one-third and our net cash generation in the year, and the favourable exchange rate benefit, mean our net debt has reduced by more than £1.7 billion in the year.

The Board recognises the importance of cash returns to investors. In line with our progressive dividend policy, and taking into account underlying business performance, we have announced a 1.0 per cent increase for the final dividend this year.

Board engagement

The Board has stepped up its engagement with key stakeholders this year. We held four Board listening events with groups of employees from around the world. These events were great opportunities for the Board to hear feedback directly from employees, as part of our overall engagement strategy. The outputs of these Board sessions are featured later in the People and Culture section of this report. These activities build on the town halls and other activities led by Stefan and the executive team.



With our new strategy clearly articulated, we have plenty to achieve in the year ahead.



The Board continued an active dialogue with shareholders and we have received regular feedback reports from investors throughout the year. I have also met with our largest shareholders to update on progress, listen to feedback and to discuss any concerns. I am pleased to report the actions we have already taken have resulted in a more positive dialogue with shareholders, although much remains to be achieved through our five-year plan.

I have also supported the new leadership team in their increased engagement with all key stakeholders, including customers, suppliers, regulators and NGOs, and we look forward to building on this in the coming year. The Board believes this more outward-looking approach is critical to changing the culture to create a stronger and more agile business.

Operating responsibly

Our commitment to our environmental, social and governance (ESG) responsibilities is captured in our new vision, purpose and values and will be delivered through our strategy.

Since becoming Chair, I have taken a direct interest in our ESG agenda and chaired a cross-functional ESG Steering Committee to maintain oversight on progress against our five ESG priorities. However, with the new ELT in place, it is now appropriate that Stefan chairs an operational ESG Steering Committee with representation from the key functions.

This will make regular reports to the Board and I will remain fully engaged.

The Board supports greater transparency, and has agreed additional publicly available KPIs for climate and energy, farmer livelihoods, human rights and waste to help our stakeholders measure our performance going forward. We have also reviewed our progress towards the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) and we are currently on track to deliver the required disclosures in 2022. I am pleased we have also committed to be net zero by 2040.

We recognise the most important ESG priority for many of our stakeholders is consumer health and, in order to realise our harm reduction ambitions, we need a stronger NGP business offering potentially reduced risk products. This is a key pillar of the new strategy and our market trials in heated tobacco and vapour are critical to establish the right foundation for this business. We will continue to report progress on these trials, which will define our metrics for consumer health.

The diversity of the ELT and the Board is an important visible sign of our commitment to diversity and inclusion and reflects our dedication to the continual development of all aspects of our ESG strategy: environmental, social and governance.

Board changes

Since becoming Chair, I have been determined to strengthen the Board's capabilities, expertise and diversity. We have made significant progress in assembling a high-quality and diverse team, notwithstanding the challenges of the global pandemic. I am delighted we have been able to further our expertise in several important areas including finance, business transformation, government and regulatory affairs and large multinational enterprises, as well as adding relevant sector experience in consumer goods and retail.

In January, we welcomed Alan Johnson to the Board as Non-Executive Director and a member of the Succession and Nominations Committee and the Audit Committee. Alan brings a strong financial background in consumer goods and retail, having held a number of senior finance positions at Unilever during a 30-year career.

In June, Pierre-Jean Sivignon stepped down from the Board for unforeseen personal reasons. The Board and I were deeply saddened to hear of his need to step down and would like to thank Pierre-Jean for his contribution to the Board.

In September, we announced the appointment of Ngozi Edozien and Diane de Saint Victor, who both joined the Board as Non-Executive Directors on 15 November. Ngozi brings to the Board over 30 years' experience in general management, finance, consultancy, and business development gained at multinational companies in Europe, USA and Africa. Diane has strong legal, regulatory and ESG experience relevant for us in the tobacco industry, having held a number of General Counsel and other key roles in an international career spanning more than three decades.

On the Executive Director side, we welcomed Lukas Paravicini to the Board as Chief Financial Officer in May. Lukas joined from ED&F Man Holdings where he was CFO and brings a combination of financial and operational experience from consumer goods companies, such as Nestlé and Fonterra, as well as experience in driving transformational change. Lukas succeeds Oliver Tant, who retired from the business in July. We wish to thank Oliver for his contribution to the business during his seven-year tenure.

Response to COVID-19

The Board has remained fully engaged in the Group's response to the pandemic, with the health and safety of our people being our first priority, followed by a focus on sustaining business performance. The Group's response has been an important agenda item at formal Board meetings and as part of our informal engagement.

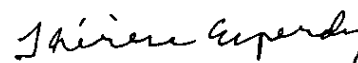
On behalf of the Board, I would like to thank our employees for their dedication and resilience in the face of the continued COVID-19 pandemic during the year. Their actions have enabled our supply chain to operate smoothly throughout the pandemic.

The year ahead

With our new strategy clearly articulated, we have plenty to achieve in the year ahead. The newly formed executive team will continue to make the changes required for the next phase of Imperial's development and we will see a new consumer-centred, performance-focused and collaborative culture emerge.

The prioritisation of investment behind our top-five combustible markets and in our market pilots for heated tobacco and vapour is creating a stronger and more focused business that is better able to deliver consistent growth over time.

The Board is confident that Imperial has great potential and we remain focused on delivering the necessary changes to strengthen performance and realise value for our shareholders.



THÉRÈSE ESPERDY
CHAIR

SET UP FOR SUCCESS

The right strategy, purpose and mindset

The strategy of Imperial Brands has three simple priorities. The first is to create sustained value in the combustible market through a focus on our priority markets where we can leverage our strengths. The second is to build a distinctive presence in next generation products (NGP), which, over time, delivers a material contribution both to harm reduction, through offering potentially reduced harm products to consumers, and investor returns. The third is to drive value from our broader global portfolio.

These priorities are mutually supportive. Scalable success in NGP requires both consumer focus and the full mobilisation of Imperial's core strengths in marketing, manufacturing and strong retail partnerships. At the same time, I believe our responsible, long-term commitment to improving the wellbeing of consumers provides a defining mission that energises the entire organisation.

Delivering on this strategy requires us to put the consumer at the centre of everything we do, to simplify our operations and to develop a rigorous performance culture.

As we build the foundations of this new culture, over the past year we have conducted a range of listening exercises with our 27,700 colleagues. Through this process, we developed a new statement of purpose: "Forging a path to a healthier future for moments of relaxation and pleasure".

Alongside the new strategy we have developed a vision statement which is "To build a strong challenger business powered by responsibility, focus and choice".

Our challenger mindset is an important and distinctive attribute. Although our brands have deep heritage, Imperial is, in important ways, a young company. This year marks our 25th anniversary as an independent public company and the key acquisitions that completed our global footprint occurred only in the past decade. In our recent history, we have been at our best when we have acted as an ambitious challenger, providing genuine choice for our customers and consumers, and an additional responsible industry player for regulators and policymakers.


After just over a year as CEO and having met many hundreds of colleagues, both virtually and face-to-face, I can confirm that this business retains that challenger spirit in abundance. However, as I said at the launch of our new strategy in January 2021, in order to make a reality of our ambition to put the consumer at the centre, we need to supplement our core strengths with additional capabilities in insights, innovation and product development.

I'd like to take this opportunity to thank our colleagues for their significant contribution, particularly with the challenges of a global pandemic.


A YEAR OF PROGRESS

Delivered improved results with growth in revenue, profit and cash


New five-year strategy and capital allocation framework announced

 See page 5 for more information


Purpose, vision and behaviours defined to support culture change

 See page 5 for more information


Focus on priority markets beginning to stabilise aggregate market share declines

 See page 30 for more information


NGP pilots underway in heated tobacco and vapour

 See page 34 for more information

Strengthened executive team in place to lead the transformation

 See page 22 for more information

Good progress on adopting new ways of working

 See page 46 for more information



A large, stylized handwritten signature in black ink, appearing to read "Stefan Bomhard".

STEFAN BOMHARD
CHIEF EXECUTIVE OFFICER

“

Being clear about our purpose and vision enables us to set in place the building blocks to develop the right culture to support our strategic delivery.

”

Over the past 12 months we have assembled a diverse, new senior team and refreshed the way we work. This approach, bringing together our traditional strengths and future-facing capabilities, has led to improved operational and financial outcomes in line with our expectations.

The right team

Driving this new culture is the newly formed Executive Leadership Team (ELT). During the year, Andy Dasgupta joined in the newly created role of Chief Consumer Officer and a re-organisation of our reporting regions led to the appointment of Kim Reed as President and CEO of our Americas Region and Paola Pocchi as President of Africa, Asia and Australasia (AAA). This new regional structure enables a sharper focus both on our largest market, the United States, and the portfolio of emerging markets that have the potential to become an important future growth engine. Javier Huerta joined as Chief Supply Chain Officer and Lukas Paravicini as Chief Financial Officer. A strengthened ELT team, collaborating closely with our experienced functional and market leaders, means Imperial now has the right blend of deep expertise of the tobacco industry and fresh ideas and perspectives from blue chip consumer goods companies, such as Nestlé, Unilever, P&G and Pepsi.

Placing the consumer at the centre of all our decisions

As Chief Consumer Officer, Andy Dasgupta is leading our focus on the consumer. Under him, we have adopted a more co-ordinated approach to how we collect and use consumer and competitor insights and data, which is leading to better-informed and faster decision-making. We are now building the right marketing, brand and portfolio management capabilities to support growth. In addition, Andy is leading a newly defined innovation programme that sits across tobacco and NGP to ensure we can meet consumer needs for new products, formats and experiences.

Embedding a high performance culture

We have taken action to embed a performance-based culture; one that holds our teams to account and rewards teamwork. For our top-five priority combustible markets this involved detailed monthly executive reviews of each market. We have revised incentive metrics for the Annual Bonus and Long-Term Incentive Plans (LTIP) to support our strategic objectives. We also have defined the new behaviours which will support the challenger-minded, consumer-centric and responsible culture we are creating at Imperial. In the coming year we will be rolling out a global programme to help our colleagues understand and embrace how they can best play a practical role in driving our transformation. More detail on this is given on pages 46 to 49.

Simplifying our operations

To simplify our operations, we are restructuring the organisation to reallocate resources to the customer and consumer-facing areas in our priority markets while simplifying other aspects of operations. This is realising savings to fund our investment plans. For example, we have already restructured our sales and marketing organisation, reducing the number of market clusters from 13 to 10. In addition, our business services are implementing modern operating models, which will embed more effective ways of working.

The right performance

Our results reflect the actions taken to focus our investment tightly behind our priority markets and to drive a more rigorous approach to managing performance in tobacco and NGP. In tobacco, we have begun to stabilise the long-term aggregate market share declines in our five priority markets through a greater focus on performance management, brand refreshes and enhancing our sales footprint in select areas. On a constant currency basis, Group net revenues grew 1.4 per cent year-on-year reflecting continued strong pricing dynamics. Reported revenue grew 0.7 per cent at actual exchange rates. As anticipated, we grew our Group adjusted operating profit by 4.8 per cent in the year on a constant currency basis driven by a reduction in our NGP losses and higher Distribution profit from Logista. Reported operating profit grew 15.2 per cent at actual exchange rates. We delivered solid cash flow performance, generating £1.5 billion of free cash flow.

Focus on priority combustible market portfolio

Aggregate market share in our five priority combustible markets declined by just two basis points, compared to a 17 basis point decline last year. Share gains in the US, UK and Spain partially offset declines in Germany and Australia. This relative improvement reflects the benefit of the changes we are making to focus greater resource and more detailed performance management on these priority markets. We have begun to increase investment in these markets behind some clear operational levers, such as increased sales force and key account management, areas which were identified by the local teams. We are making good progress, although the main investment increase begins in the coming year. Further details are provided in the Operating Review.

Build a targeted NGP business

The NGP category remains relatively nascent in the majority of markets. We have an exciting opportunity to make a meaningful contribution to harm reduction by building a targeted and sustainable business in this market, offering potentially reduced risk products. Our new approach offers consumers greater choice in markets where they already express a preference for a particular proposition.

In heated tobacco, two trials in the Czech Republic and Greece with our Pulze and iD propositions have received a positive response from our trade partners and consumers. These are attractive markets because heated tobacco is already a well-established NGP category and we can leverage our existing route to market for combustible tobacco products. The valuable consumer insights we gain from these pilot initiatives will inform the scale and pace of further market rollouts.

In the United States we have also started trials for a revised proposition for our vapour product, blu, including more innovative consumer communication and customer support. We have chosen to do this in a focused geographic area to best assess the impact of our new approach.

Modern oral nicotine continues to perform well in Norway and Austria, markets where consumers have a preference for this type of proposition.

Deliver value from broader market portfolio

Our detailed strategic review created a clear role for each of Imperial's markets. The structured approach to market segmentation will drive our allocation of resources in terms of management time and investment. Our more focused approach has supported market share gains across the Group with overall tobacco share up 20 basis points year-on-year. Highlights include a strong performance from the African market cluster, which has grown share, net revenue and profit.

Environmental, social & governance (ESG)

Our approach to ESG supports our new business strategy and defines our responsibilities as a business. It is aligned with those UN Sustainable Development Goals which are most relevant to our Company strategy, namely consumer health, climate and energy, farmer livelihoods and welfare, human rights, and waste.

Furthermore, we have recently made a commitment to be net zero by 2040. We already have targets which are consistent with reductions required to limit climate warming to 2°C, which have been approved by the Science Based Targets initiative (SBTi). We intend to re-engage with SBTi to approve revised and more ambitious goals consistent with climate warming of 1.5°C and our net zero ambition.

We have strengthened our ESG team with the hiring of Tony Dunnage as global lead on ESG. Tony brings more than 30 years' experience in Unilever, directing end-to-end supply chain and manufacturing sustainability for 250-plus factories and reports directly to the ELT.

Capital allocation priorities

We have a clear capital allocation framework linked to our strategy to maximise returns for shareholders, with four clear capital priorities:

- Invest behind the new strategy to deliver the growth initiatives.
- Deleverage to support a strong and efficient balance sheet with a target leverage towards the lower end of our net debt to EBITDA range of 2-2.5 times.

- A progressive dividend policy with dividend growing annually taking into account underlying business performance.
- Surplus capital returns to shareholders to be considered once target leverage has been achieved.

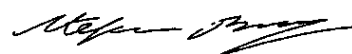
This year we reduced adjusted net debt by £1.7 billion, on a constant currency basis, with net debt to EBITDA gearing reduced by 0.5 times to 2.2 times, at constant currency. At actual exchange rates, reported net debt reduced by £1.8 billion.

In line with our progressive dividend policy, the Board has decided to increase the dividend by 1.0 per cent, and we remain committed to providing a reliable, consistent cash return to shareholders.

Outlook

We remain on track to deliver against our strategy with our expectations for the coming year in line with the guidance we provided at our Capital Markets Day in January this year. At constant exchange rates, we expect to deliver net revenue growth at a similar rate to the 2021 financial year, while adjusted operating profit is expected to grow slightly slower than net revenue, reflecting the increased investment in line with our strategic plan.

Our five-year strategy to strengthen performance and deliver growing shareholder returns is divided into two distinct phases. The year ahead will complete the two-year 'strengthening' phase with further investment in our five priority markets and NGP pilots, the embedding of new ways of working and cost-saving initiatives in line with our plans. This builds the foundations for the subsequent three-year phase of our plan, in which we will accelerate returns and deliver sustainable growth in shareholder value.



STEFAN BOMHARD
CHIEF EXECUTIVE OFFICER

A STRENGTHENED TEAM

Our newly assembled Executive Leadership Team (ELT) brings fresh perspectives and consumer-facing capabilities to the business from a diverse range of FMCG backgrounds.

This, in combination with the deep tobacco industry knowledge that exists across our market leadership teams, gives us confidence that we have the right blend of skills and experience to deliver on our strategy.

Five additions to the ELT this year include Chief Financial Officer Lukas Paravicini and two new Region Presidents, Kim Reed and Paola Pocci.

Andy Dasgupta was appointed to the newly created role of Chief Consumer Officer, and Javier Huerta has joined to lead a new single, connected and integrated supply chain function.



STEFAN BOMHARD
CHIEF EXECUTIVE OFFICER

Stefan has experience of leading the delivery of transformational change, having spent five years as CEO of the international automotive distribution business Inchcape. His 30 years of business experience also include senior roles in the consumer goods sector at Unilever, Procter & Gamble and Cadbury, as well as the challenger firms Bacardi and Burger King.



LUKAS PARAVICINI
CHIEF FINANCIAL OFFICER

Lukas has a track record of driving transformational change in financial and operational roles at international consumer goods organisations. He was previously CFO at agricultural commodities and brokerage group ED&F Man Holdings and also held senior positions at Fonterra, the world's largest dairy exporter. These roles built on a 22-year career at Nestlé.



JOERG BIEBERNICK
PRESIDENT, EUROPE REGION

Joerg has extensive tobacco industry knowledge from his four years on the ELT, including a six-month period as Joint Interim CEO. Prior to joining Imperial he developed considerable brand marketing and general management experience from senior roles in the consumer sector at Kimberly Clark, Georgia Pacific and Procter & Gamble.

Image removed

Image removed

ALISON CLARKE
CHIEF PEOPLE & CULTURE OFFICER

Alison is a highly experienced global business leader having held senior positions at Whitbread, Hutchison, United Utilities and at Inchcape, where she held responsibility for all aspects of people and culture strategies. She has led a number of large HR functions, and teams responsible for business transformation, communications and ESG.

MURRAY MCGOWAN
CHIEF STRATEGY & DEVELOPMENT OFFICER

Murray has a strong background in strategy gleaned from strategic and operational leadership roles for a number of high profile businesses including Costa Coffee, Yum! Brands, Cadbury and The Restaurant Group. He also worked with a range of leading global FMCG and retail businesses during his time at McKinsey & Company.

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ANINDYA (ANDY) DASGUPTA
CHIEF CONSUMER OFFICER

Andy has held senior executive positions in marketing, strategy and general management for large global businesses in multiple markets. He developed extensive consumer experience working in senior roles in the consumer healthcare division at GlaxoSmithKline, the Global Beverages Group at PepsiCo, and at Fonterra, where he led the global consumer-branded business.

PAOLA POCCI
PRESIDENT, AFRICA, ASIA AND AUSTRALASIA REGION

Paola has a strong understanding of geographically diverse consumers and of operations management across traditional and modern retail channels. In her 22 years at Procter & Gamble she held leadership positions across developed and developing territories, including Europe, the Middle East, the US and China, and across multiple FMCG categories.

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JAVIER HUERTA
GLOBAL SUPPLY CHAIN OFFICER

Javier has extensive experience in supply chain, operations and consumer goods having held a number of senior roles in an 11-year career at Unilever, most latterly as Executive Vice President Supply Chain for Foods and Refreshment. His strong consumer goods background also includes a 14-year career in various roles at Nestlé.

KIM REED
PRESIDENT AND CEO, AMERICAS REGION

Kim has a wealth of experience in consumer goods and a track record of more than 30 years in sales and executive leadership roles. She joined our US business as Executive Vice President, Sales in 2019 to successfully design and oversee a comprehensive sales transformation strategy. Prior to joining ITG Brands, Kim was General Manager of US Sales at The Kellogg Company.

UNLOCKING VALUE



OUR ASSETS

OUR PEOPLE

27,700 employees

We have 27,700 committed and passionate employees who want to make a difference

OUR BRANDS

160 brands

Our portfolio of 160 brands provides enjoyment and pleasure for millions of adult consumers every day

OUR RELATIONSHIPS

120 markets

We have solid, trusted partnerships with stakeholders including customers and suppliers across 120 markets

OUR OPERATIONS

31 manufacturing sites

We have a network of 31 manufacturing sites that source and process tobacco raw materials to provide high quality products at lowest cost

OUR INDUSTRY KNOWLEDGE

Our deep knowledge of the tobacco and nicotine industry, including our scientific and regulatory understanding, helps us to operate responsibly in all our markets

OUR FINANCIAL STRENGTH

We are able to raise prices to more than offset volume declines to deliver high margins and strong cash flows to invest and drive return

OUR BUSINESS ACTIVITIES

ADULT CONSUMER INSIGHTS



We start with the consumer – and everything we do is based around a deep understanding of adult smokers and nicotine consumers. This is led by our Chief Consumer Officer and we unlock value by ensuring we offer the right product choices to meet consumer needs. These insights provide competitive advantage and inform how we communicate with adult consumers and our product offerings in both combustible tobacco and NGP.

SCIENCE & REGULATION



We use our know-how and smaller size to be agile in how we respond to regulatory changes. This is supported by our science and corporate affairs teams who understand the regulatory environment in all our markets and ensure we operate responsibly with high quality products compliant with local standards.

MARKETING & INNOVATION



Our marketing and innovation teams add value by using consumer insights to develop a portfolio of combustible tobacco and potentially reduced harm NGP to engage and excite adult consumers. We use sales and marketing communications and innovation to differentiate our brands and meet evolving consumer needs.

SUSTAINABLE SOURCING

Our leaf purchasing teams work with a diverse and complex supply chain from smallholder farmers to multinational companies to procure high-quality leaf and nicotine for our products. Our procurement teams add value by responsibly meeting all our sourcing needs including leaf, nicotine and non-tobacco materials such as papers, filters and packaging, as well as the power and water we use to run our factories.



EFFICIENT MANUFACTURING

Our manufacturing teams take the raw materials and employ the latest production methods, working to the highest quality and product manufacturing standards. Our scale and knowledge are competitive strengths enabling us to supply quality products at lowest cost. Where appropriate, for example with NGP devices, we use third-party manufacturers with the technical expertise to deliver high-quality products. We also use third-party logistics companies to distribute our products.



STRONG RETAIL PARTNERSHIPS

The sales and marketing teams in our regions add value through their strong partnerships with our customers, which is a source of competitive advantage. We understand their needs and help them to navigate the changing regulatory environment. Our goal is to deliver mutually attractive commercial arrangements that support growth and value creation for our retailer, wholesaler and distributor customers. We want our customers to grow so we grow as well.

AN ATTRACTIVE INVESTMENT PROPOSITION

Our new five-year strategy will build a better and stronger business by leveraging our assets and capabilities to unlock value for all stakeholders. Alongside our strategy we have set out a clear capital allocation framework to support investment in the new strategy, strengthen our balance sheet and deliver enhanced shareholder returns.



REVITALISED TOBACCO BUSINESS DRIVING STRONG CASH RETURNS

The tobacco value creation model remains resilient with affordability and strong brand loyalty supporting sustainable pricing. By focusing on our top five combustible markets that generate c. 70% of operating profit contribution, with selective investment in brand equity and sales force, we will stem market share losses to generate improving cash returns from our combustible business.

Our five-year plan will deliver a stronger financial outlook with a clear operational and financial focus over two phases.

c.70%

OF PROFIT
CONTRIBUTION
COMES FROM TOP
FIVE COMBUSTIBLE
MARKETS



NGP BUSINESS PROVIDING OPTIONS FOR POTENTIAL HARM REDUCTION AND GROWTH

Next generation products have great growth potential as they are still a relatively nascent category in the majority of markets. We have unified our NGP operations under a single leadership, incorporating agile and entrepreneurial ways of working as a differentiated fast follower. By revising our category prioritisation and limiting our category/market combinations, taking a relentless consumer focus and a more disciplined investment approach, we have a clear plan to enhance our NGP delivery.



SELF-HELP INITIATIVES DELIVER OPERATIONAL IMPROVEMENT AND STRENGTHEN PERFORMANCE

Investment and operational improvements will enhance financial delivery as we build the right capability and focus on our enabling functions to support the new strategy. With the consumer firmly placed at the centre of our business, and a challenger mindset re-established, teamwork and collaboration are encouraged with rewards and incentives based mainly on shared Group objectives.



STRONG SUSTAINABLE CASH FLOW GENERATED FROM A HIGH QUALITY PORTFOLIO

The business remains highly cash generative with low capital intensity, a working capital focus and disciplined capital expenditure producing cash conversion of typically between 90% and 100%. Group expectations are for flat adjusted operating profit in FY22, thereafter delivering improving profit growth with a three-year mid-single digit compound annual growth rate.



PROGRESSIVE DIVIDEND SUPPLEMENTED BY CAPITAL RETURNS AT THE APPROPRIATE TIME

Near-term capital priorities include targeted investment in operational levers, a progressive dividend policy reflecting underlying performance and a commitment to an investment grade credit rating. Once target leverage is achieved, the Board supports surplus capital returns via a share buyback and/or special dividend.

Our five-year plan will deliver a stronger financial outlook with a clear operational prioritisation in tobacco and NGP over two phases:

	Phase 1 – Strengthening FY21 to FY22	Phase 2 – Accelerating returns FY23 to FY25
Strategic focus	<p>Increased investment in operational growth drivers in tobacco and NGP</p> <p>New ways of working deliver efficiencies</p> <p>Implement operational excellence improvements</p>	<p>Investment and operational improvements enhance financial delivery</p> <p>Consolidate investment in tobacco and NGP</p> <p>Leveraging efficiency benefits</p>
Net revenue	Gradually improving trajectory with 5-year CAGR of 1-2%	
Adjusted operating profit	FY22 adjusted operating profit margin flat* on FY21, with no margin reset	Delivering improving profit growth 3-year CAGR of mid-single digits
Cash flow	Operating cash flow conversion typically between 90% to 100%	
Dividend	Progressive dividend policy reflecting underlying performance	
Leverage	Committed to investment grade credit rating (lower end 2.0x to 2.5x Net Debt/EBITDA)	
Further capital returns	Once target leverage achieved, Board supports surplus capital returns	

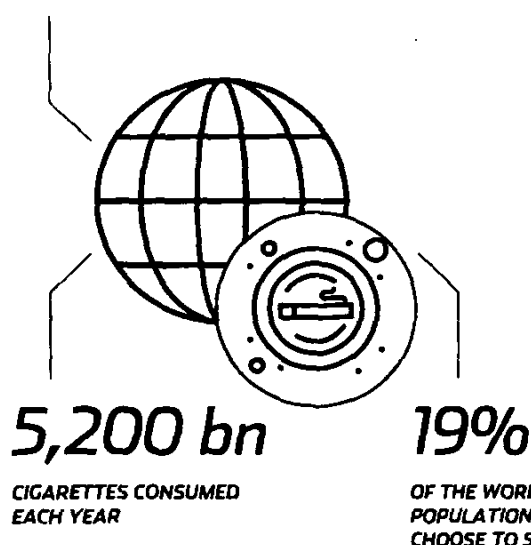
* excluding non-repeat of net £40m US state litigation settlement charge.

MANAGING OUR MARKET DRIVERS

The global tobacco market is valued at US\$850 billion, with cigarettes representing the largest category with over 5,200 billion cigarettes consumed each year. Although global cigarette consumption is declining, more than 19 per cent of the world's adult population still choose to smoke. The development of potentially less harmful next generation products (NGP), coupled with social change and regulation, is resulting in some smokers choosing alternative nicotine products such as heated tobacco, vapour and oral nicotine, that do not involve the combustion of tobacco. The industry remains highly competitive with four global players as well as local operators.

US\$850 bn

THE GLOBAL TOBACCO
MARKET VALUATION



REGULATION AND EXCISE

Tobacco and nicotine regulation continues to evolve and remains a significant influence on how we manufacture, advertise and sell our products, and how our consumers buy and enjoy them. Regulation varies widely across regions and markets. At a regional level, the EU has committed to re-examining its Tobacco Products Directive. Nationally, countries such as New Zealand have unveiled comprehensive programmes of new regulation, while the US and Greece have further developed product-by-product approval pathways for the marketing of tobacco and nicotine products. Combustible tobacco is heavily taxed, contributing globally more than US\$200 billion to governments each year.

Despite these measures, smoking among adults persists. Many of the world's one billion adult smokers choose to use tobacco products in markets where there are extreme restrictions on tobacco availability, marketing, and use. Imperial Brands supports reasonable and rational regulation of tobacco and nicotine products, in some cases going beyond requirements established in law. Most notably, our products are for adult nicotine consumers only.

We prohibit sales to those under the age of 18 worldwide, even in jurisdictions where this is not a legal requirement, and where the legal age is higher, we take that as our limit. We take firm steps to help prevent retailers from selling to minors and have robust procedures in place to promote compliance. On this and other regulatory issues, we work proactively with governments, legislators and regulators around the world to help ensure that our business operates legally and responsibly. Our products can be controversial, but the way that we do business is not.



HARM REDUCTION

We are reassured that some global regulators have continued to pursue and promote tobacco harm reduction policies. These are enlightened public health strategies that recognise the failure of traditional, absolutist messages of tobacco control to achieve their objectives, and propose instead an approach of reducing the health impacts of nicotine consumption, rather than seeking to eliminate the habit itself. Governments that have followed this approach, such as the United Kingdom and New Zealand, accept that not all nicotine products are equally harmful, and that public health benefits can be realised at a population level if existing smokers transition to potentially less harmful products, so long as there is minimal transition in the other direction, and such products do not attract new users who would not otherwise have chosen to consume nicotine.

Jurisdictions that have implemented tobacco harm reduction policies have seen positive public health results, yet the approach has not yet captured the support of all regulators. This is partly attributable to the refusal of tobacco control activist networks to acknowledge the weight of science in this area. This leads to counterproductive and regressive strategies, such as aggressive tax increases, which limit the transition to potentially less harmful alternatives and pose risks to public health targets and fuel the illicit trade.

There are faint but welcome signs of change. In the US, the Food and Drug Administration has two specific pathways open to novel tobacco and nicotine products that acknowledge that some such products either offer a modified risk compared to existing tobacco products, or are "appropriate to the protection of public health". The process of accessing these pathways is rightly rigorous, if somewhat opaque and burdensome. Yet the insistence on examining the scientific basis for the safety of complete products, and considering their impact at a population level, is a marked improvement in the quality of the regulatory debate.



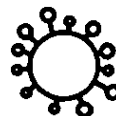
ILLICIT TRADE

Unfortunately, the prevalence of the illicit trade in tobacco products means that we face competition from a less scrupulous criminal supply chain. Illicit tobacco deprives the responsible industry of revenue, deprives governments of vital excise, and deprives consumers of the security of enjoying rigorously tested, high-quality products. The illicit trade is a complex phenomenon, driven by economic, practical, and political factors. Fighting illicit trade requires a co-ordinated approach from government and industry. Imperial continues to work with enforcement agencies to reduce this scourge.



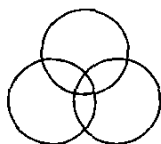
MANAGING WIDER IMPACTS

It is not just dedicated tobacco and nicotine regulation that affects our business. Sustainability concerns have grown in areas such as single-use plastics and have expanded into new areas as our portfolio widens to encompass electronic consumer devices, batteries and other associated product types. Meeting the additional challenges raised by this increased complexity, and helping our consumers to navigate both the regulations and the claims made in this area, are a priority. Our new sustainability KPIs will embed this priority at the heart of our ESG agenda, and will enable us to demonstrate our progress, as we engage with national and regional authorities on issues ranging from litter to the sourcing of precious metals.



IMPACT OF COVID-19

Although COVID-19 has had a significant impact on all our lives, the impact on the tobacco industry has been relatively limited with travel restrictions and lockdowns causing some changes in consumer buying patterns in different markets and channels such as duty free. We expect these effects will unwind as the restrictions are lifted.



FOCUSING ON OUR PRIORITY MARKETS

We prioritise investment and resources in our five most important markets of the USA, Germany, UK, Australia and Spain, which represent more than 70 per cent of our operating profit.

FOCUSING ON OUR LOCAL JEWELS

In Spain we are leveraging the full potential of our local jewel brands by focusing on brand building and awareness initiatives.

Our Nobel cigarette brand, which already has strong equity and national coverage, is benefiting from ongoing investments in pack and product quality.

Limited edition packs, designed in collaboration with leading local artists, are tapping into Nobel's heritage to drive market share gains.

In response to positive consumer feedback, a strong pipeline of further brand building initiatives is in place for Nobel.

BUILDING BACKWOODS AND MEETING NEEDS

In the USA the actions we're taking to build on the unique equity and positioning of our leading mass market cigar brand Backwoods are continuing to drive strong top and bottom line growth.

We are extending the brand's regional presence in previously under-penetrated areas of the country and building on a tried-and-tested programme of consumer engagement activities.

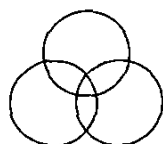
In addition, the Backwoods range has been evolved to better meet consumer expectations through new product offerings including premium exclusive editions and smaller pack sizes to drive consumer trial.

ENHANCING OUR SALES EXECUTION

Our strategic review highlighted the opportunity to enhance our sales execution in our priority markets and this year we increased investment in both the USA and Germany.

For example, we added 200 more sales people in the USA, while optimising sales force coverage across the right outlets. Similarly, in Germany, we have invested to improve sales force effectiveness and presence in under-represented channels and geographies.

We are investing to equip our sales people with better tools and information systems to help them serve our customers better.



DRIVING VALUE FROM OUR BROADER PORTFOLIO

We have identified additional opportunities to drive growth whilst realising efficiencies in our broader market portfolio, with our strategic review defining a clear role for each market.

STRONG PLATFORM FOR GROWTH IN OUR AFRICA REGION

In Africa we have leadership positions in four of our top five markets, thanks to strong brands and unparalleled route-to-market capabilities.

We have identified opportunities to drive growth through multiple levers in the region, where affordability is improving as incomes increase.

These levers include better application of our global brands in more premium price tiers, leveraging our local jewel brands and closing our sales coverage gaps.

AN ATTRACTIVE OUTLOOK IN EASTERN EUROPE

Our portfolio of Eastern European markets has the potential to be a platform for future growth.

As part of our new strategy, we are prioritising investment where we see the best growth prospects for tobacco or NGP.

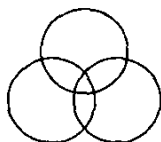
In our five largest markets in Eastern Europe – Poland, Ukraine, Romania, the Czech Republic and Hungary – our strategic analysis suggests there is an attractive value growth opportunity over the next five years.

BUILDING ON OUR NORDICS TRACK RECORD IN SNUS

Traditional oral nicotine products have a long history of use in the Nordics where our strong market positions make us the clear number two player in this category.

We've achieved steady year-on-year growth since acquiring the Skruf business in 2005, building a 20% share in Sweden, the largest market, and a 40% share in Norway.

We remain well placed in the category and are confident in our ability to build on this track record in the years ahead.



BUILDING A TARGETED NGP BUSINESS

Our disciplined approach to building a successful and sustainable NGP business is informed by local consumer insights and detailed market testing.

HEATED TOBACCO PILOTS UNDERWAY

Market trials of our Pulze heated tobacco device and compatible iD heat sticks have been commenced in the Czech Republic and in Greece.

Heated tobacco is an established and quickly growing NGP category in both countries, territories in which Imperial already has a strong route to market for its traditional tobacco products.

The valuable consumer insights gleaned from these pilot initiatives will inform the scale and pace of further market rollouts within Europe.

TESTING A NEW APPROACH TO BLU

In the USA, the world's largest vapour market, we have been trialling a refreshed consumer proposition for our blu brand.

Supporting the geographically focused pilot in the city of Charlotte, North Carolina, is a "Get Unlit" promotional campaign that resonated strongly with target consumers in pre-launch testing.

Enhanced blu product packaging has been made available across more than 220 key stores and a full in-store and digital consumer engagement programme was rolled out from October.

POSITIONS OF PROMISE IN MODERN OND

Products in the modern oral nicotine delivery category (OND) do not contain tobacco and are more widely available than traditional OND products.

The category is expected to grow rapidly and, through our ZoneX brand, we have established some promising share positions in Europe that we can continue to build over time.

As part of our disciplined and targeted approach, we will stay focused on our existing presence within Europe, and have no plans to expand to other markets at this stage.

HOW WE MEASURE PERFORMANCE

These key performance indicators are used to assess the progress we are making in delivering our strategy. We revised the KPIs this year to align with our new strategy and our remuneration incentives.

AGGREGATE PRIORITY MARKET SHARE VS PRIOR YEAR (%)

21	-2bps
20	-17bps
19	-22bps

Performance

Our strategic focus and rigorous performance management has begun to arrest the aggregate weighted market volume share performances in our priority markets, following several years of decline. Gains in the USA, UK and Spain were offset by declines in Australia and Germany.

Definition

Aggregate weighted market volume share, based on our five priority markets (USA, Germany, UK, Spain and Australia). Market volume share is calculated based on a 12-month moving annual total (MAT) volume share position from September to August. The market volume size used in the weighting calculation is based on a constant prior year end actual market size.

TOBACCO & NGP ADJUSTED OPERATING MARGIN (%)

21	43.5%
20	41.2%*
19	44.1%

Performance

Margins improved primarily due to lower NGP write-downs and losses.

Definition

Tobacco & NGP operating margin is adjusted operating profit divided by tobacco & NGP net revenue expressed as a percentage.

* 42.1% excluding Premium Cigar Division disposal.

TOBACCO & NGP NET REVENUE (EBN)

21	£7.6bn
20	£8.0bn*
19	£8.0bn

Performance

Tobacco & NGP net revenue declined 4.7 per cent at actual exchange rates. Excluding the Premium Cigar Division, Tobacco & NGP net revenue declined 1.9 per cent at actual exchange rates but grew 1.4 per cent on a constant currency basis. Tobacco net revenue increased by 1.5 per cent excluding the Premium Cigar Division disposal and NGP revenue was down by 3.9 per cent both at constant currency.

Definition

Tobacco & NGP net revenue comprises tobacco and NGP revenue less duty and similar items, excluding peripheral products.

* £7.7bn excluding Premium Cigar Division disposal.

DIVIDEND PER SHARE (PENCE)

21	139.1p
20	137.7p
19	206.6p

Performance

The dividend grew 1.0 per cent reflecting our progressive dividend policy. This follows the Board's decision in May 2020 to rebase the dividend by one-third to accelerate debt repayment.

Definition

Dividend per share represents the total annual dividends, being the sum of the paid interim dividend and the proposed final dividend for the financial year.

ADJUSTED EARNINGS PER SHARE (PENCE)

21	246.5p
20	254.4p*
19	272.3p**

Performance

Adjusted earnings per share was up 2.8 per cent on an organic constant currency basis, excluding a currency headwind of 3.1 per cent. Reported earnings per share was up 89.5 per cent. This is explained in the Financial Review.

Definition

Adjusted earnings per share represents adjusted profit after tax attributable to the equity holders of the Company divided by the weighted average number of shares in issue during the period, excluding shares held to satisfy employee share plans and shares purchased by the Company and held as treasury shares.

* 247.2p excluding Premium Cigar Division disposal.
** 2019 EPS restated to exclude other income.

RETURN ON INVESTED CAPITAL (%)

21	16.5%
20	15.2%
19	15.9%

Performance

Return on invested capital improved in the year driven by a reduction in invested capital as a result of the disposal of the Premium Cigar Division.

Definition

Return on invested capital measures the effectiveness of capital allocation and is calculated by dividing adjusted operating profit after tax by the annual average of: intangible assets, property, plant and equipment, net assets held for sale, inventories, trade and other receivables and trade payables and other current liabilities. The annual average is defined as the average of the opening and closing balance sheet values.

R KPIs used as bonus and LTIP performance criteria for Executive Directors. See Remuneration Report on page 124 for more information

NON-FINANCIAL KPIs¹

ENERGY CONSUMPTION (GWH)^{1,2}

21	729
20	773
19	788

Performance

We have seen a 17 per cent decrease in energy consumption from our 2017 baseline year. Our target is to reduce energy consumption by 25 per cent by 2030.

Our 2021 relative energy consumption is 95,740 kWh/Emillion.

Definition

We measure relative indicators against "Emillion" tobacco and NGP net revenue. Energy consumption covers the energy used in our offices, manufacturing sites and by our sales fleet vehicles. The energy we use originates from a variety of sources including fossil fuels and renewable sources.

ABSOLUTE CO₂ EQUIVALENT EMISSIONS (TONNES)^{1,2}

21	95,987	43,980	239,977
20	95,577	47,039	246,616
19	100,897	158,108	250,500

SCOPE 1

SCOPE 2

TOTAL ABSOLUTE CO₂E EMISSIONS

Performance

We have seen a 14 per cent decrease in total Scope 1 and 2 emissions from our 2017 baseline year. Our target is to reduce CO₂e emissions by 25 per cent by 2030. We have also set a Scope 3 target to minimise our carbon impact beyond our direct operations.

Definition

We report on greenhouse gas emissions resulting from the operations that fall within our consolidated financial statements, using the operational control reporting approach. We report on the seven main greenhouse gases and report in terms of tonnes of CO₂ equivalent (CO₂e).

WASTE (TONNES)^{1,2}

21	41,714
20	40,253
19	41,366

Performance

We have seen a 15 per cent decrease in waste from our 2017 baseline year. However, we have seen a 4 per cent increase in waste compared to last year which is due to an improvement in the accuracy of measurements. One of our sites in Central America has a new waste management provider who weighs the waste on site which provides more accurate data.

We seek to minimise the waste and waste to landfill associated with our production processes through a combined approach of reduce, reuse and recycle.

Definition

This includes waste from manufacturing sites and main offices, excluding Logista and Sales and Marketing entities. It does not include any material which is re-used.

LOST TIME ACCIDENT FREQUENCY RATE (PER 200,000 HOURS)^{1,3}

21	0.27
20	0.32
19	0.4

Performance

Our continued focus on health, safety and risk management has resulted in a 16 per cent decline in our lost time accident rate compared to last year.

Definition

A lost time accident is an "on-the-job" accident that results in an employee being unable to return to work for a minimum of one full day.

NET DEBT TO EBITDA (MULTIPLE)

21	2.2x
20	2.7x
19	2.9x

Performance

The ratio trajectory continues to improve, supported by strong cash flows and the use of divestment proceeds from the sale of the Premium Cigar Division to pay down debt.

Definition

Adjusted closing net debt divided by adjusted EBITDA.

Adjusted closing net debt is measured at balance sheet foreign exchange rates, with a full reconciliation shown in note 30. Adjusted EBITDA is calculated as adjusted operating profit plus amortisation, depreciation and impairments.

CASH CONVERSION RATE (%)

21	83%
20	127%
19	95%

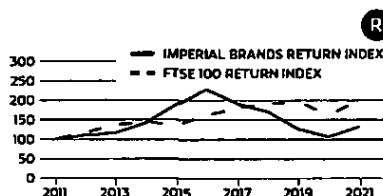
Performance

2021 cash conversion of 83 per cent reflected unwind of prior year Logista working capital.

Definition

Cash conversion is calculated as cash flow from operations pre-restructuring and before interest and tax payments less net capital expenditure relating to property, plant and equipment, software and intellectual property rights as a percentage of adjusted operating profit.

TOTAL SHAREHOLDER RETURN



Performance

Total shareholder returns rebounded in the year, growing 25 per cent, as news of the new strategy stabilised share price performance and the dividend cut in 2019 was annualised.




Definition

Total shareholder return is the total investment gain to shareholders resulting from the movement in the share price and assuming dividends are immediately reinvested in shares.

- 2020 and 2021 data has been independently assured by EY. Our Reporting Criteria Document contains detail on definition and scope of all non-financial KPIs. See www.imperialbrandspc.com/sustainability for more information.
- Our 2021 environmental data follows the reporting period Q4 financial year 2020 to Q3 financial year 2021. This is to allow for data collection, validation and external assurance. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.
- Our health and safety data is for the full 2021 financial year. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.

BUILDING TRUST WITH OUR STAKEHOLDERS

Building and maintaining trust with our stakeholders underpins the success and reputation of Imperial Brands. Through stakeholder collaboration we aim to develop the Company, minimise our environmental impact, make a positive social contribution and uphold high standards of governance.

Stakeholder group	How the Board considers this stakeholder	How we engage across the Company
 <p>COLLEAGUES</p> <p>Our colleagues are Imperial's most important asset. It is essential we create a supportive, safe and rewarding work environment to enable them to deliver our goals and develop their careers</p>	<ul style="list-style-type: none"> • Steven Stanbrook is our dedicated Workforce Director, who sits on the Board • In addition to the management-led workforce engagement events, the Board held four listening events with groups of our colleagues during the year. These events included several Non-Executive Board members, and gave the Board the opportunity to hear feedback directly from our colleagues, as part of our overall engagement strategy. This engagement allowed the Board to incorporate colleagues' views into its decision-making 	<ul style="list-style-type: none"> • We held listening exercises across all functions and regions. The feedback gathered helped to develop our purpose, vision and behaviours and these were launched at our first ever global all-staff conference • We hold CEO and leadership town hall meetings in person, COVID permitting, otherwise virtually allowing colleagues the opportunity to give feedback directly to the ELT • We launched a global diversity and inclusion diagnostic in early FY21 and, as a result of the feedback, set up four global employee resource groups (ERGs) to further understand the issues raised and to co-create solutions. The ERGs represent gender, ethnicity, LGBTQ+ and disability • We use various channels including the Intranet, IB Weekly and other ad hoc announcements to ensure regular internal communication with colleagues
 <p>CONSUMERS</p> <p>Millions of adults worldwide choose to enjoy our tobacco and NGP products. Meeting their expectations of quality and understanding their evolving requirements are vital for the long-term sustainable growth of our business</p>	<ul style="list-style-type: none"> • Feedback from focus groups held in different markets with consumers from diverse backgrounds was presented to the Board as part of the strategic review • To better understand how Imperial's existing NGP proposition was perceived by consumers, the Board saw focus group feedback by specific NGP proposition 	<ul style="list-style-type: none"> • Consumer round tables and focus groups are held – virtually where COVID restricts – to understand their specific requirements and changing preferences • Feedback from these focus groups is used in our decision-making for investments in brand refreshes and marketing • The new position of Chief Consumer Officer was created on the ELT to lead and promote consumer-listening exercises across the Group
 <p>CUSTOMERS</p> <p>We work closely with distributors, wholesalers and retailers to ensure our products are available to adult consumers in a diverse range of outlets worldwide. They play a crucial role in our business model</p>	<ul style="list-style-type: none"> • The Board reviews feedback from customer visits for each priority market to monitor the development of stronger trade partnerships • This feedback influenced the Board's decision to support the investment to develop our sales teams in the priority markets of the US and Germany and to enhance their sales tools and technology • Our CEO has met with customers regularly since joining in 2020 	<ul style="list-style-type: none"> • Our market cluster leadership teams engage with our customers to understand how to improve the effectiveness of their sales force • We have worked closely with our distributors to understand how we can best manage our relationships. This has led us to relaunch a dedicated team to support distributor sales and build best practice in distributor management across the Company • For our largest customers we use key account management practices to better understand their needs and to create strong commercial partnerships to help both our businesses prosper

This section of the report provides insight into how stakeholder engagement is taken into consideration by the Board and the Executive Leadership Team (ELT) in their decision-making process. It goes on to describe how we monitor the effectiveness of our engagement.

The Board's decision-making process is brought to life in our Section 172 statement on pages 42 to 44 with reference to specific examples from the recent strategic review.



Further information on how the Board has considered stakeholders when making key decisions is also given in the Governance Report on pages 100 to 101.

What matters to this stakeholder

How we monitor the effectiveness of our engagement

- Our colleagues want to see continued progress on equality and diversity and for colleagues to feel included. They want to see that issues of authenticity and inclusion around disability, ethnicity, LGBTQ+ and gender are taken seriously throughout the Company
- They want to see that responsibility and accountability are underpinned by a fair assessment of contribution
- Colleagues want to see senior management lead the new behaviours by example to create an environment where innovative approaches are encouraged and we learn from our failures
- Health, safety and wellbeing continues to be a priority in the workplace

- Review results of our annual Workforce Engagement "Have Your Say" Survey
- The ESG Steering Committee, chaired by the CEO, receives feedback from the ERGs. In addition, as each ERG is sponsored by a member of the ELT and co-chaired by members of the senior management, feedback from colleagues on how the Company is progressing in taking on board inclusivity concerns is given to the ELT via the sponsors
- Feedback obtained during the Board listening sessions




- Our focus groups informed us that adult consumers want a choice of brands and quality products at the right price points
- Feedback has also shown us that consumer preferences such as cigarette pack formats, flavours and filters as well as the choice of potentially less harmful NGPs evolve over time
- Our focus groups have shown us that listening to these needs and remaining relevant underpin consumer loyalty to brands

- We hold regular consumer focus groups to assess the evolution of the impact of our brand refreshes and marketing campaigns on consumers
- We believe market share changes across products, channels and geographies reflect the effectiveness of our engagement

- A diverse portfolio of quality products that appeal to consumers
- Consistent communication on launch pipeline and investment behind relevant brands in region
- Ease of ordering and strong supply chain to maintain high levels of on-shelf availability
- Support to protect against illicit trade and underage sales
- Support and guidance through industry changes, e.g. initiatives to help customers manage their business through regulatory change such as display bans or plain packaging
- Trade programmes that reward customer business growth

- We monitor our performance relative to other FMCG companies through the Advantage Survey and other benchmarking surveys. Feedback from these surveys is reviewed and taken into account in our engagement plans and in setting priorities
- We hold management roundtable events with regional customers to hear first-hand how Imperial is performing relative to our peers
- A quarterly pulse report provides performance feedback which is used to highlight areas for improvement
- We have KPIs to monitor progress against operational initiatives

PERFORMANCE STAKEHOLDER ENGAGEMENT – CONTINUED

Stakeholder group	How the Board considers this stakeholder	How we engage across the Company
 GOVERNMENTS & REGULATORS Government approach to tobacco legislation varies significantly across geographies. Imperial Brands supports reasonable and rational regulation of tobacco and nicotine products	<ul style="list-style-type: none"> Our new corporate strategy includes a commitment to building a next generation product (NGP) portfolio of potentially reduced harm products Board approval of Modern Slavery Statement During the year our Chair, Thérèse Esperdy, met with US officials to discuss the US regulatory environment 	<ul style="list-style-type: none"> We monitor changing regulations in our markets and assess the impact on our existing portfolio and innovations We assess regulation impact on pack design and marketing support around brand launches This monitoring allows the Board to take relevant legislation and regulation into account when making its decisions
 INVESTORS Our investors provide capital to the business and monitor management's allocation of that capital within the business	<ul style="list-style-type: none"> Our CEO, CFO and Chair have regular meetings with our top shareholders to hear their views directly and to update and consult with them The Board was involved in the development and communication of the new strategy that was outlined at the Capital Markets Day in January. Investor feedback was collected from the subsequent roadshow The Board receives a report at every meeting on investor engagement as well as a feedback report following all events Our AGM provides an opportunity for the Board to meet with investors 	<ul style="list-style-type: none"> Our Annual and Interim results presentations inform investors how the business is performing. The subsequent investor results roadshow enabled Stefan to provide investors with his first impressions of the business and update them on his approach and progress on the strategic review We maintain a programme of active dialogue with our key financial stakeholders, including institutional shareholders, potential investors, holders of our bonds and sell-side research analysts. Senior management present at various industry conferences
 SUPPLIERS We maintain strong relationships with our tobacco, non-tobacco materials (NTM) and NGP suppliers to help ensure sustainable supply and business continuity, ensuring fair contract and payment terms	<ul style="list-style-type: none"> Board approval of Modern Slavery Statement Suppliers within our supply chain are included as part of the Board's ESG considerations During the year we reviewed the risk of COVID-19 to suppliers, including in respect of logistics Our Chair, Thérèse Esperdy, visited our US manufacturing operations to engage on supply chain 	<ul style="list-style-type: none"> Our Supplier Qualification Programme is a screening process for all new NTM and NGP suppliers, requiring a self-assessment on business conduct, environmental management, and labour practices such as discrimination, child and forced labour, freedom of association, remuneration, working hours and health and safety All our leaf suppliers are expected to participate in the Sustainable Tobacco Programme (STP) Through our leaf partnership projects we support communities in tobacco-growing countries identified as having the most need Maintaining meaningful impact during the COVID-19 pandemic. For example, in the Philippines, we adapted an after school programme to be home-based in cases where children could not attend school

What matters to this stakeholder**How we monitor the effectiveness of our engagement**

- Tobacco excise revenues and public health spending on smoking-related health issues
- Assessment of reduced harm from next generation products
- Compliance with local laws and regulations
- Confidence in our businesses operating legally and responsibly in that Government or Regulator's region
- Collaboration with law enforcement agencies countering illicit trade and preventing youth access to tobacco and nicotine products

- We monitor the approval of the listing of our products in various markets
- We review proposed new regulation and the Company's ability to be involved in the development of reasonable and rational regulation

-
- Confidence in the Board that it has appropriate oversight of the management team
 - Trust in the management team to have a strategy and operational plan to optimise value creation and ensure the long-term sustainability of returns
 - The setting of expectations combined with the transparent reporting of performance against KPIs both financial and non-financial, including ESG metrics
 - Disciplined capital allocation

- Our CEO, CFO and Chair continue to have active engagement with investors to gather feedback on the changes we have made
- Topics discussed included the actions taken to improve performance, progress with Executive and Non-Executive recruitment, capital allocation considerations and ESG
- The Board also receives an IR report for every Board meeting, which sets out the latest shareholder views, share register movements and recent market development
- Detailed feedback from investors is collected after each investor event and roadshow, which is shared with and discussed by the Board so it has good understanding of investor views

-
- Our support with Leaf Partnership projects focusing on having an impact on important issues in the countries from which we source our tobacco including Malawi, Mozambique, Indonesia, India, the Philippines, Dominican Republic, Honduras and Turkey
 - Fair contract and payment terms

- Vendor rating system for our key NTM suppliers and annual business reviews
 - The STP programme supports the sustainable supply of quality tobacco leaf. It is a framework to improve labour standards, raise standards of living and address environmental challenges, by sharing knowledge of good agricultural practices
 - The annual STP assessment is part of our formal supplier relationship management. It forms part of the suppliers' ratings that we determine along with quality, cost and value
 - In 2021, we have worked with our suppliers to understand what is happening within their supply chain and where there is the opportunity for us to support them and have the most positive impact
 - Online engagement and performance reviews
-

STATEMENT ON SECTION 172 OF THE COMPANIES ACT 2006

The ongoing sustainable success of Imperial Brands is dependent on its relationship with a wide range of stakeholders, including consumers, colleagues, governments & regulators, customers, suppliers, and investors.

The Board seeks to consider the various interests of all relevant stakeholders when reaching decisions. Engagement with our stakeholders was central to the formulation of our renewed strategy and is critical in delivering that strategy in order to achieve long-term sustainable success. Our engagement enables the Board to understand what matters to our stakeholders and consider their interests when making decisions.

However, it is not always possible to provide positive outcomes for all of them. The Board, therefore, sometimes has to make decisions based on the competing priorities of stakeholders, but acts in the best long-term interests of the Company and its stakeholders generally.

The principles underpinning s172 are not only considered at Board level; the differing interests of stakeholders are taken into consideration by management when making wider business decisions. In performing their duties during the year, the Directors

have had regard to the matters set out in Section 172(1) of the Companies Act 2006 and throughout this report you will find information about how the Board operates and makes decisions in accordance with its requirements.

The principal decisions taken by the Board in the year are detailed on pages 100 to 101 of the Governance Report. Our approach below sets out how the Board is supported in carefully considering all the relevant factors that lead to selecting the best course of action to ensure the long-term success of the Company.

S. 172 FACTORS

a

The likely consequences of any decision in the long term

b

The interests of the Company's employees

c

The need to foster business relationships with suppliers, customers and others

d

The impact of the Company's operations on the community and the environment

e

The desirability of the Company maintaining a reputation for high standards of business conduct

f

The need to act fairly as between members of the Company

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as s. 172 considerations, have been considered in its decision-making are shown on the following pages.

CONSIDERING STAKEHOLDERS IN KEY DECISIONS

FOCUS ON TOP FIVE COMBUSTIBLE MARKETS **S. 172 FACTORS** **a b c**

The Board recognises that decisions could be enhanced through the increased use of consumer insights and data. These insights have guided the Board in its decision to focus our investment and resources behind our five most important markets.

We are, therefore, investing to support a consistent approach to consumer insight, including better capabilities in brand and trade marketing, portfolio management, innovation and sales excellence. This transformation is being supported by the newly appointed Chief Consumer Officer.

In developing the new strategy, the Board has also used a fact-based understanding of our business, driving a deeper understanding of consumer perspectives, competitor insight, market evolution and category potential.



CONSUMERS

The Board enhanced our consumer-centric approach by:

- Appointing a Chief Consumer Officer to inspire and support markets
- Placing consumer insights at the heart of decision-making
- Delivering a combustible innovation pipeline driven by consumer insights
- Helping markets to understand what consumers want and to manage their product portfolio



COLLEAGUES

The Board considered the capabilities required to deliver the renewed strategy:

- Appointing new leaders where appropriate and enhancing the talent pipeline
- Embedding a performance-based culture, supporting teamwork and collaboration throughout our business to support our focus and performance in these markets
- Communicating with colleagues to ensure understanding of renewed strategy and that the Board is made aware of their feedback
- Investing in and upgrading top talent, both embracing diversity and driving inclusivity



CUSTOMERS

The Board spent time understanding our customers' needs to enable them to support our consumers by:

- Helping markets to better develop customer relationships
- Improving and increasing resource and the capability for customer engagement



INVESTORS

The Board spent time understanding investors' priorities, including:

- Delivering a stronger and more consistent performance from our top five markets
- Maintaining a strong and efficient balance sheet
- Development of a detailed five-year plan with clear strategic priorities with investments targeted to deliver the greatest opportunities for value creation
- The renewed strategy is supported by a clear capital allocation framework to optimise returns for investors



GOVERNMENTS & REGULATORS

The Board enhanced its understanding of governments' and regulators':

- Excise models and their influence on retail prices and manufacturers' price increases
- Tobacco control measures and impact on our operating environment
- Policies and their impacts on downtrading and illicit trade

CONSIDERING STAKEHOLDERS IN KEY DECISIONS

MORE DISCIPLINED EXECUTION IN NGP **S. 172 FACTORS** a b c d

Informed by consumer insights and validation, we are resetting our NGP strategy with a significantly different approach. This approach aims to develop a sustainable NGP business that supports our ESG agenda by making a meaningful contribution to harm reduction by offering potentially reduced risk products.

Clear, fact-based understanding of our business will drive a deeper understanding of consumer perspectives, competitor insight, market evolution and category potential.

We are focusing our investment behind heated tobacco opportunities in Europe, and in selective market opportunities in vapour, particularly in the USA. Our oral nicotine business remains focused on its existing markets within Europe. Our investment will be disciplined and based on detailed market testing.



CONSUMERS

The Board enhanced its consumer-centric approach by:

- Improving insights into market developments, outlook and global product innovation
- Further integrating marketing and manufacturing capability to better support consumer-led innovation
- Understanding the importance of offering our consumers a reduced risk proposition
- Providing consumers with differentiated products developed using consumer insight



CUSTOMERS

The Board spent time understanding our customers' needs to enable them to support our consumers by:

- Providing customers with differentiated products that they want to sell
- Ensuring that customers are appropriately supported
- Considering their time needs for preparation for promotion to consumers



COLLEAGUES

The Board considered the distinct culture and capabilities required within the NGP business to deliver the renewed strategy, including:

- Building a consumer-focused, challenger mindset
- Investing in and upgrading top talent, both embracing diversity and driving inclusion, recognising that this may require a different skillset to the Group's traditional tobacco business
- Bringing NGP operations together to more effectively leverage capability and resources



GOVERNMENTS & REGULATORS

The Board enhanced its understanding of governments' and regulators' views on NGP including:

- The importance of offering our consumers a reduced risk proposition
- Their excise policy versus combustible tobacco products
- Legality of products within the NGP sector



INVESTORS

The Board spent time understanding investors' priorities including:

- Delivering a stronger and more consistent performance from our more targeted NGP business
- Maintaining an appropriately resourced NGP business

NON-FINANCIAL INFORMATION STATEMENT

The following table constitutes our Non-Financial Information Statement in compliance with Sections 414CA and 414CB of the Companies Act 2006. The information listed is incorporated by cross-reference. Additional Non-Financial Information is also available on our website www.imperialbrands.com.

Reporting requirement	Policies and standards which govern our approach ¹	Information necessary to understand our business and its impact, policy due diligence and outcomes	
Environmental matters	<ul style="list-style-type: none"> Occupational health, safety and environmental policy and framework Sustainable Tobacco Programme 	Environmental targets International management systems Climate and energy Reducing waste Sustainable tobacco supply	37, 52, 53, 54 54, 57 37, 52, 54 to 56, 83 37, 53, 56 53, 57, 58, 60
Employees	<ul style="list-style-type: none"> Code of Conduct Group-wide employment policy Fairness at work policy Occupational health, safety and environmental policy and framework 	Diverse and engaged workforce Workforce Engagement Director Workplace health and safety International management systems Lost time accident (LTA) rate	47, 48, 49 123 37, 57, 58 54, 57 37, 57
Respect for human rights	<ul style="list-style-type: none"> Human rights policy Code of Conduct Supplier Code Supplier qualification programme Modern slavery statement Speaking Up policy 	Diverse and engaged workforce Workforce Engagement Director Workplace health and safety International management systems	47, 48, 49 123 37, 57, 58 54, 57
Social matters	<ul style="list-style-type: none"> International marketing standards Fontem marketing standards Policy on taxation Community contributions and volunteering policy Information security policy 	Responsible operations and people Youth access prevention Charitable and political donations	51, 52, 53 28, 62 142, 143
Anti-corruption and anti-bribery	<ul style="list-style-type: none"> Code of Conduct Fraud risk management policy Speaking Up policy Finance manual Group control matrix Supplier Code of Conduct 	How we manage risk Governance, risk management and internal control	80 80 to 91
Description of principal risks and impact of business activity	<ul style="list-style-type: none"> Principal risks and uncertainties Governance, risk management and internal control 		80 to 91 117 to 119
Description of the business model	<ul style="list-style-type: none"> Our business model 		24, 25
Non-financial key performance indicators	<ul style="list-style-type: none"> Key performance indicators Sustainability performance indicators 		36, 37 37, 52 to 57, 61

1. Not all of our Group policies and standards are publicly available.

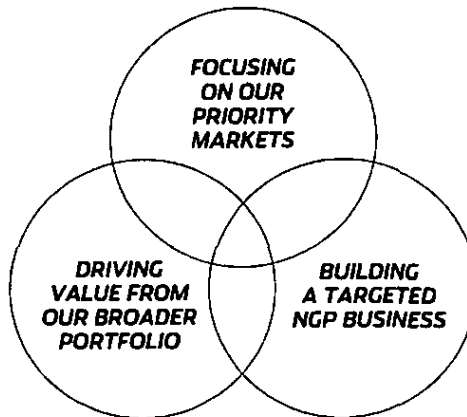
SETTING OUR PEOPLE UP FOR SUCCESS

The development of our people and culture is critical to the future success of Imperial. When we launched our new strategy in January 2021, we described three critical enablers that would be necessary for our transformation: putting the consumer at the centre of our business; simplified and efficient operations; and a performance-based culture and capabilities. We also explained how these enablers would be underpinned by new purpose and vision statements and behaviours, which would be co-created with our 27,700 colleagues.

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XAMSA
FACTORY OPERATOR

STRATEGIC PILLARS



CRITICAL ENABLERS

**CONSUMER AT THE
CENTRE OF THE BUSINESS**

**PERFORMANCE-BASED
CULTURE AND
CAPABILITIES**

**SIMPLIFIED AND EFFICIENT
OPERATIONS**

OUR BEHAVIOURS

**START WITH
THE CONSUMER**

Everything we do starts with the consumer – they are the reason we are here.

**COLLABORATE
WITH
PURPOSE**

We work collaboratively with others to deliver better outcomes for all of us.

**TAKE
ACCOUNTABILITY
WITH CONFIDENCE**

We deliver what we promise, and we hold each other to account.

**BE AUTHENTIC
AND INCLUSIVE
TO ALL**

Everyone is welcome. The more diverse we are, the stronger we are.

**BUILD OUR
FUTURE**

We stay one step ahead, and challenge ourselves to be better every day.

DEVELOPING AND EMBEDDING NEW BEHAVIOURS

Since January, we have been laying the foundations of what – taken together – constitutes a new culture for Imperial. During 2021, we engaged in a series of listening exercises across all functions and regions in order to develop our purpose and vision (see pages 6 to 9), and in October these were launched at Imperial's first ever global all-staff conference, entitled "Connections". At this highly interactive event, we also launched the five behaviours which describe how we need to think and act in order to deliver successfully on our ambitions. In the coming year, we will develop culture metrics to ensure that we carefully measure our progress on this journey.

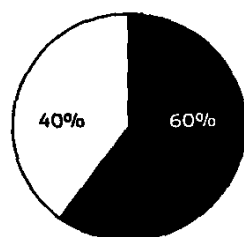
CREATING NEW CAPABILITIES

The year has seen unprecedented levels of organisational change, all with the objective of better aligning the business with our strategic objectives. In order to focus management resources on our priority markets, we have reorganised Imperial into three regions: the Americas, Europe, and Africa, Asia & Australasia (AAA). The number of market clusters has been reduced from 13 to 10, simplifying design and creating efficiencies.

To help fulfil our ambition to put the consumer at the centre of everything we do, we have set up the new Group Consumer Office, led by Andy Dasgupta. We have brought on board new talent in crucial consumer-facing areas, including insights, portfolio management and innovation. Alison Clarke has continued to build the People & Culture function to support our transformation and cultural change agenda. During the year we completed our refresh of the Executive Leadership Team (ELT), with the

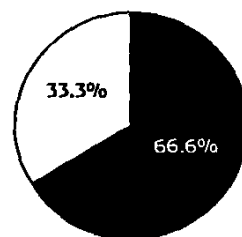
CREATING A DIVERSE ORGANISATION

OUR BUSINESS



● Male	60%
○ Female	40%

ELT



● Male	66.6%
○ Female	33.3%

appointments of Lukas Paravicini as Chief Financial Officer and Paola Poggi as President of the AAA region. The new ELT brings experience from a wide range of global consumer businesses, including Unilever, Nestlé and Procter & Gamble. The ELT is supported by a 75-strong Imperial Leadership Team, whose members boast deep knowledge of the industry and expertise across the value chain.

FOCUSING ON DIVERSITY AND INCLUSION

A key aspect of our cultural transformation is our focus on creating a more diverse and inclusive organisation.

We launched a global diagnostic survey in November 2020 to better understand our people's feelings about how inclusive they felt their working environment to be. There was a high completion rate with insightful feedback, and, in response, we created four global Employee Resource Groups

(ERGs) to further understand the opportunities to create a more inclusive organisation. Each of these is sponsored by an Executive leader, supported by members of the senior leadership team, and focuses on areas colleagues considered most important: ethnicity, disability, gender and LGBTQ+.

To build a wider awareness of how to build a more diverse and inclusive organisation, we provided bespoke e-learning courses in 11 languages to help our global leaders understand the topics of "unconscious bias" and "microaggressions" and the impact these have on our people, especially those in non-dominant groups. We have also actively supported global events such as International Women's Day, Pride and Black History Month.

40 per cent of our hires made in FY21 have been female, resulting in a positive shift in the ELT, which is now 33 per cent female.

ENHANCING OUR SKILLS & CAPABILITIES

Embedding our new behaviours requires patient training, mentoring and dialogue at all levels of the organisation. Already, ELT members have each received more than six hours of one-to-one coaching to help them understand the challenges our people face and the critical role they play in building a more inclusive, consumer-represented organisation.

The ELT and their direct reports have committed to completing a further 22 hours of focused training to help them support our shift in culture and better understand how our purpose, vision and behaviours contribute to positive change. Workshops and other support designed to embed our behaviours will be rolled out to the full workforce during 2022.

SUPPORTING AND ENGAGING OUR PEOPLE THROUGH COVID

The COVID-19 pandemic has continued to have a serious impact on our people in all locations. The pace at which social-distancing restrictions are being lifted varies considerably between

markets. Globally, we have maintained our high tempo of engagement with colleagues in order to identify any new or emerging concerns. Our global all-staff Connections conference resulted in more than 1,000 separate pieces of written feedback. Other activities have included regular virtual town halls and we will be launching a new global engagement survey in November 2021. As well as our activities looking after the physical health and safety of our colleagues (See ESG section pages 50 to 63), we have maintained our focus on supporting the mental wellbeing of our people, with a range of market-led initiatives.

Where appropriate, we have also been directly supporting vaccination efforts. At our factory in the Dominican Republic we facilitated the vaccination of more than 3,000 people in a four-day, on-site programme organised with the local health ministry. In Laos an on-site clinic vaccinated 111 employees and 43 family members.



GROWING RECOGNITION

Our efforts to create a high-performing and inclusive environment for our people have resulted in a growing number of awards.

This year we were recognised as a 'Top Employer Europe' for a fourth successive year. Country-level certifications have been achieved by a record 11 of our entities across Europe, with our Russian business earning Top Employer status this year for the first time. Outside Europe, our businesses in Morocco and the United Arab Emirates (UAE) have also been recognised as a Top Employer for the first time, taking the total number of certified Imperial Brands entities this year to 13. Top Employers Institute is the global authority on recognising excellence in the conditions that businesses create for their people. Companies participating in its certification programme have the potential to gain Top Employer status following a comprehensive analysis of people development practices.

Separately, Imperial Tobacco Taiwan Limited (ITTTL) has been named by HR Asia as one of its 'Best Companies to Work for in Asia 2021'.



MANAGING OUR ESG RESPONSIBILITIES

Managing our Environmental, Social and Governance responsibilities remains a core part of the way we operate at Imperial Brands. Following the refresh of the company strategy during 2021, a process of stakeholder engagement will be undertaken to confirm our priority ESG issues, to ensure we align to our new business strategy and to developing external expectations.

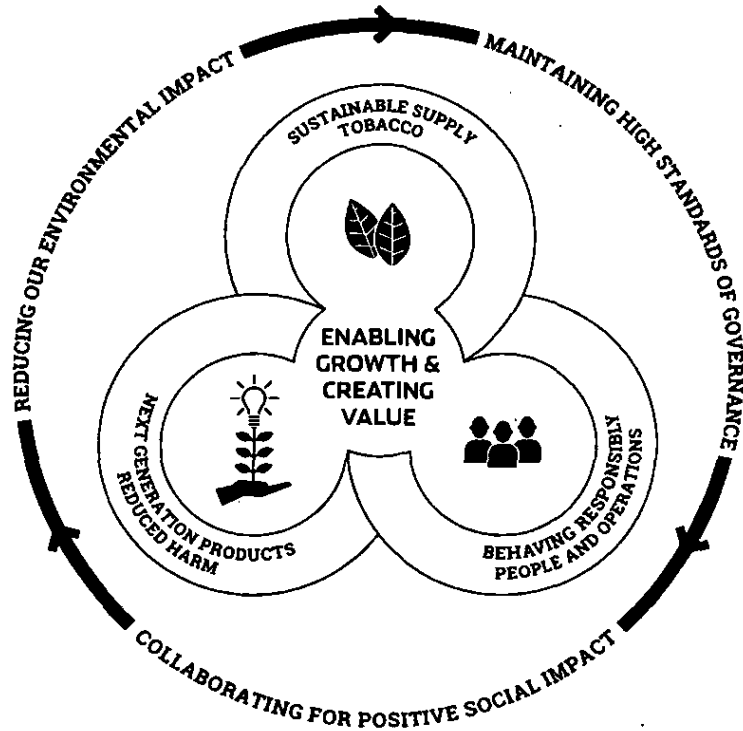
Building and maintaining trust with our stakeholders underpins the success and reputation of our business. Stakeholder engagement introduces wider perspectives and enables better decision-making. It is an ongoing process which we primarily use to help us understand key priorities and how we can do things better.

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OUR SUSTAINABILITY STRATEGY

Our sustainability strategy is central to the long-term success of our business and underpins our drive to create shared value for our stakeholders. The strategy focuses on three pillars identified as having the greatest significance to us and our stakeholders: a sustainable tobacco supply, Next Generation Products (NGP) and responsible people and operations. The three pillars of our strategy, designed to enable growth and create value, define the approach we take to addressing our environmental, social and governance (ESG) responsibilities.



Next generation products

Developing alternative products that are potentially less harmful to health.



Sustainable tobacco supply

Maintaining sustainable agricultural practices to ensure a consistent, quality supply of tobacco.



Behaving responsibly

Behaving responsibly at all times and providing a safe and rewarding work environment for employees.

OVERSEEN BY THE BOARD AND ESG COMMITTEE

The Board has agreed that the ESG Committee will be chaired by the CEO and will be an executive committee. We have refreshed the ESG Committee membership and will relaunch in financial year 2022.



Read more in our Governance Report on page 104

OUR PRIORITY ESG ISSUES

Our priority ESG issues

1



CONSUMER HEALTH

We understand society's concerns about the health risks of smoking and recognise our role in helping to reduce the harm caused by combustible tobacco products.

Our commitment

We are committed to strengthening our Next Generation Products (NGP) performance and in doing so, to making a more meaningful contribution to harm reduction by offering adult smokers a range of potentially less harmful products.

How we are achieving this

We have reset our NGP strategy in FY21 where we are approaching our NGP expansion through a consumer insights led challenger mindset.

Through prioritising geographies where we would focus, we are building a strong and high quality NGP pipeline leveraging our scientific knowhow.

Our commercialisation approach is through pilot launches to test and optimise our offerings for consumers – before scaling up our product availability more widely.

Our progress in 2021

We have launched our Heated Tobacco offering (Pulze) in Greece and the Czech Republic. Our vaping product myblu now benefits from an enhanced route to market and communication plan in the USA.

We have a thriving Oral Nicotine business in the Nordics with brands like Skruf, and have launched a cutting edge bamboo fibre based product under our Zone-X brand.

Our scientific substantiation to date continues to indicate that myblu, Skruf, ZoneX and Pulze are all likely to be substantially less harmful than continued combustible cigarette smoking and provide potentially reduced risk alternatives to combustible products for adult consumers.

We refrain from testing our products on animals, and use cutting edge in-vitro technologies to test our products.

See more on our science website.

2



CLIMATE AND ENERGY

Given our global reach and influence, we want to play a role in protecting the natural environment and actively work to minimise our environmental impacts.

We are committed to reducing our climate and energy impacts across our value chain, from crop production to manufacturing and distribution.

Managing climate-related risks and opportunities across our business and value chain.

Reducing our carbon footprint across our value chain. We have science-based targets for Scope 1, 2 and 3 approved by the Science Based Targets initiative.

Better understanding the carbon footprint of our NGP.

We recognise that energy efficiency is the first step towards carbon reduction and we have reduced our absolute energy consumption by 17 per cent from the 2017 base line year.

We have seen a 14 per cent decrease in total Scope 1 and 2 emissions from our 2017 baseline year and our target is to reduce them by 25 per cent by 2030.

We have committed to reach net-zero global emissions by 2040 in line with the aim to limit global warming to 1.5°C.

We were awarded an A rating by CDP for our 2020 Climate Change submission for a second consecutive year.

UN SDGs

We are committed to tobacco harm reduction.

We are taking action to combat climate change and its impacts.



Find out more at www.imperialbrandspic.com/sustainability/performance

3



FARMER LIVELIHOODS AND WELFARE

Farmer livelihoods and welfare are of paramount importance to sustainable tobacco production and we continue to engage with our suppliers to help to support and develop farming communities.

We are committed to helping to support farmers to diversify income streams in order to enhance farming community livelihoods and welfare.

Strengthening the industry-wide Sustainable Tobacco Programme (STP) to measure positive impact.

Maintaining a dialogue with our tobacco leaf suppliers and supporting them through our Leaf Partnerships Programme to allocate funds to continually improve access to basic needs and diversification of income.

Industry-wide collaboration focused through the STP.

Engaged with subject matter experts and local implementing partners to enable us and our suppliers to better understand the risks in certain countries. This informs the projects we support on the ground, ensuring they have maximum impact for the tobacco farming communities within which our suppliers operate.

Established a baseline including two externally reported farmer livelihoods KPIs. These highlight how many farmers have access to initiatives that aim to increase farm productivity (97%)¹ and how many farmers are diversifying their income by growing complementary crops (88%)¹.

A third KPI highlights the impact of projects we funded with our suppliers in Africa, Asia, Europe and South America aimed at improving livelihoods. In 2021 there were 130,000 direct farmer beneficiaries.

We are committed to decent work for all and sustainable economic growth.

Ensure access to water and sanitation for all.

4



HUMAN RIGHTS - MODERN SLAVERY

As an international business we recognise the importance, influence and role we have in promoting respect for human rights across our business and supply chains.

We are committed to raising awareness and improving processes for identifying modern slavery in our business and supply chains.

Better understanding modern slavery risk across our business and supply chains.

Further information is set out in our Modern Slavery Statement.

Continuing to educate the business on the risk of modern slavery and tailoring training to suit different functions.

Introducing a robust approach to protecting human rights, which includes how we address modern slavery and the issue of child labour in tobacco farming using external expertise.

Strengthening our governance and human rights due diligence processes.

Undertook Supply Chain Impact Assessments with tobacco leaf suppliers to better understand important human rights issues in our global supply chains.

Our Modern Slavery e-learning module is now available to employees in 15 different languages. Introduced more tailored and in-depth training to our managers on modern slavery.

Further developed our approach to undertaking due diligence in relation to human rights issues.

Strengthened the Sustainable Tobacco Programme (STP) to better respond to and measure the work our suppliers do as part of a continual process to manage human rights.

Established a cross-functional Human Rights Compliance Working Group.

Developed a modern slavery audit module in collaboration with Slave Free Alliance and used to conduct a test pilot audit of our UK facilities management provider.

We are committed to decent work for all and sustainable economic growth.

5



WASTE

As part of our role in protecting the natural environment, we seek to minimise waste and waste sent to landfill.

We are committed to minimising the waste associated with our products, packaging and production processes.

Supporting manufacturing sites to achieve the 2030 targets set for waste.

Innovating waste solutions for product disposal.

Monitoring and responding to EU legislative changes, including the Single-Use Plastics Directive.

We trialled take back recycling schemes in Germany and France for myblu pods, diverting consumer waste away from landfill.

We are improving packaging recyclability for our combustible brands by replacing the aluminium inner liner with paper.

Responsible consumption and production.

¹ Data is from strategic suppliers in highest priority countries as outlined by sustainability index compiled using Maplecroft risk indexes.

2021 PERFORMANCE HIGHLIGHTS

Our key performance indicators reflect our performance against our priority ESG areas, which are aligned to our new commercial strategy. Below we have presented highlights from our 2021 ESG performance. We measure our environmental performance by comparing results with our 2017 baseline year. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.

ESG Environmental

CLIMATE AND ENERGY PERFORMANCE

Performance indicator		2017	2018	2019	2020	2021	Commentary
Operations with ISO 14001 certification	%	92	91	86	86	78	Due to the ongoing COVID-19 pandemic, there have been delays in some sites (particularly those in Africa) in obtaining re-certification. We will aim to undertake a review in FY22.
Absolute energy consumption ¹	GWh	875	842	788	773	729 ^A	We have seen a 17 per cent decrease in energy consumption from our 2017 baseline year. Our target is to reduce energy consumption by 25 per cent by 2030.
Relative energy consumption ¹	KWh/£m net revenue	112,801	108,926	98,500	96,625	95,740 ^A	In compliance with the UK streamlined energy and carbon reporting (SECR) requirements, our total UK energy consumption was 13.46 GWh which is 1.84 per cent of the global total (2020: 14.33 GWh and 1.85 per cent).
Absolute Scope 1 CO ₂ e emissions ¹	Tonnes	118,000	110,896	108,241	99,577	95,987 ^A	Our Scope 1 emissions arise from stationary fuel combustion at our sites, refrigerant gases, and mobile fuel combustion in our fleet of company sales vehicles. We have seen a 4 per cent decrease in Scope 1 emissions since last year and a 19 per cent reduction from our 2017 baseline year.
Absolute Scope 2 CO ₂ e location-based emissions ¹	Tonnes	161,573	161,020	158,108	147,039	143,990 ^A	Our Scope 2 emissions comprise the indirect emissions resulting from the use of purchased electricity, heat and steam at our sites. We have seen a 2 per cent decrease in Scope 2 emissions since last year and an 11 per cent reduction from our 2017 baseline year.
Total absolute Scope 1 and 2 CO ₂ e emissions ¹	Tonnes	279,573	271,916	258,589	246,616	239,977 ^A	We have seen a 14 per cent decrease in total Scope 1 and 2 emissions from our 2017 baseline year. Our target is to reduce these emissions by 25 per cent by 2030.
Relative Scope 1 and 2 CO ₂ e emissions ¹	Tonnes/£m net revenue	39.0	35.2	32.4	30.8	31.5 ^A	We have also set a Scope 3 target to minimise our carbon impact beyond our direct operations. In compliance with the UK SECR requirements, our total UK Scope 1 and 2 emissions were 2975 tonnes CO ₂ e emissions, which is 1.24 per cent of the global total (2020: 3,289 CO ₂ e emissions and 1.33 per cent).
Key suppliers by spend with science-based targets	%	-	19	22	38	41	We aim to ensure that 50 per cent of our suppliers by spend will have science-based targets by 2023.
Logista absolute Scope 1 and 2 CO ₂ e emissions	Tonnes	38,554	38,924	38,906	38,407	-	Logista is managed remotely due to commercial sensitivities and has provided independently assured data for absolute Scope 1, 2 and 3 emissions. Data for 2021 is still undergoing independent assurance. Logista's 2020 relative Scope 1 and 2 emissions comprise 38 tonnes (2019: 38) of CO ₂ e per £million of 2020 distribution fees (our non-GAAP revenue measure for Logista). Further information on the scope of Logista's GHG reporting is available at www.grupologista.com
Logista absolute Scope 3 CO ₂ e emissions	Tonnes	193,611	189,980	201,566	205,240	-	

STEADY PROGRESS IN REDUCING THE KEY ENVIRONMENTAL KPIs



REDUCING OUR EMISSIONS

SCOPE 1

4% decrease
since 2020

19% decrease
since 2017

SCOPE 2

2% decrease
since 2020

11% decrease
since 2017

OVERALL SCOPE 1 AND SCOPE 2

3% decrease
since 2020

14% decrease
since 2017



REDUCING OUR WATER CONSUMPTION

7% decrease
since 2020

24% decrease
since 2017



REDUCING OUR ENERGY CONSUMPTION

FOR MANUFACTURING SITES,
OFFICES AND FLEET FUEL

6% decrease
since 2020

17% decrease
since 2017

WASTE AND WATER PERFORMANCE

Performance indicator		2017	2018	2019	2020	2021	Commentary
Total waste ¹	Tonnes	49,141	43,388	41,366	40,253	41,714*	We have seen a 15 per cent decrease in waste from our 2017 baseline year. However, we have seen an increase of 4 per cent in waste compared to last year which is due to an improvement in the accuracy of waste measurements from one of our sites in Central America. Our target is to reduce waste by 20 per cent by 2030.
Waste to landfill ¹	Tonnes	6,746	6,769	7,109	6,431	9,411*	We are very disappointed to report a 40 per cent increase in waste sent to landfill from our 2017 baseline year. This increase is mainly driven by two factors. Firstly, one of our sites in Central America recorded a doubling of waste to landfill in comparison to the previous year due to more accurate measurements by the waste management provider. Secondly, one of our sites was responsible for safely destroying menthol cigarettes due to the menthol cigarette ban in the UK, which subsequently led to an increase in total waste to landfill. Our target is to reduce waste sent to landfill by 50 per cent by 2030 which remains a key focus area for us.
Landfill avoidance rate	%					95	This year we have calculated the landfill avoidance rate. This KPI shows the percentage of our waste diverted from landfill.
Absolute water consumption ¹	m ³	1,468,626	1,327,102	1,316,904	1,198,523	1,109,178*	We are pleased to report a 24 per cent reduction in water use from our 2017 baseline year, which exceeds our target to reduce water consumption by 15 per cent by 2030. We are currently reviewing our ESG strategy and will set a new water target.

FUEL-EFFICIENT TOBACCO CURING BARN

We have been working with our leaf supplier, Alliance One International (AOI), on a project in Tanzania to make tobacco curing barns more fuel-efficient. We source tobacco from Tanzania and between crop year 2015 and 2017 we invested in a project which resulted in the conversion of 2021 barns, with an annual saving of 4244m³ of wood, equating to at least 355.59 tCO₂e saved annually. In 2021, based on Imperial's financial contribution to this project, 2140.41 tCO₂e have been reduced. AOI and Imperial continue to assess barn efficiency projects.



SCIENCE BASED TARGETS INITIATIVE

Our carbon targets for Scope 1, 2 and 3 (supply chain) have been approved and validated by the Science Based Targets initiative (SBTi).

We have joined the Business Ambition for 1.5°C campaign of the SBTi. This means we are committed to reaching science-based net-zero emissions by 2040.



CDP

CDP, the international non-profit organisation that helps companies manage their environmental impact, has awarded us an A rating for climate change submission in 2020, for a second consecutive year. We are also pleased to be recognised as a Supplier Engagement Leader by CDP in 2019 and 2020. This recognises the leadership and actions we are taking to cut emissions, mitigate climate risks, contribute to a low-carbon economy and engage with suppliers to manage climate risk and reduce Scope 3 carbon emissions in our supply chain.

We have also been participating in the CDP water disclosure for several years now and are pleased to have scored an A- for our 2020 submission which indicates that we are implementing current best practices in water management across our operations and supply chain. We await the results from CDP for our 2021 submissions.



IMPERIAL NAMED AS A CLIMATE LEADER BY THE FINANCIAL TIMES

Imperial has been recognised as a 2021 Climate Leader by the Financial Times in its first ever ranking of actions taken by European businesses. The FT's listing identifies the 300 companies across the continent that achieved the highest reduction in core greenhouse gas emissions between 2014 and 2019. We're committed to further reducing our carbon footprint.

See page 63 for further details.

HEALTH AND SAFETY PERFORMANCE

Performance indicator		2017	2018	2019	2020	2021	Commentary
Employee fatalities¹	number	0	0	2	3	1	We deeply regret to report a work-related fatality in 2021 following a road accident. A thorough investigation has been conducted and support provided to the family and work colleagues of the deceased.
Contractor fatalities²	number	0	0	0	0	0	Health and safety remains a priority for all our stakeholders.
Members of the public fatalities involving Imperial Brands vehicles²	number	1	4	1	0	0	Road safety remains a priority across all of our operations.
Lost time accidents (LTA)^{2,3}	number	92	118	101	80	65	There has been an 19 per cent decrease in the number of lost time accidents compared to last year.
LTA rate^{2,3}	lost time accidents per 200,000 hours worked	0.36	0.46	0.40	0.32	0.27 ^A	There has been a 16 per cent decline in our lost time accident rate compared to last year. During FY21 we increased the use of leading indicators to better manage risk throughout our operations.
Total number of accidents^{2,3}	Number	937	931	850	720	573	We have seen a 20 per cent decrease in total accidents compared to last year.
Accident rate^{2,3}	total accidents per 200,000 hours worked	3.66	3.61	3.39	2.19	2.36	We have seen a 8 per cent increase in our accident rate compared to last year. However, we are pleased to see a continued reduction in our total number of accidents and our LTA rate.
Vehicle accident frequency rate³	accidents per million kilometres	-	-	5.03	4.19	3.9	There has been a 7 per cent decrease in our vehicle accident rate compared to last year. Road safety remains a key priority for us. We adopt global standards for road safety and use our Drive Safe campaign to promote awareness and influence behaviour.
OHSAS 18001 / ISO 45001 certification	%	87	87	79	79	74	Due to the ongoing COVID-19 pandemic, there has been delays in some sites (particularly those in Africa) in obtaining re-certification. We aim to undertake a review in FY22.

DIVERSITY PERFORMANCE

Performance indicator		2017	2018	2019	2020	2021	Commentary
Female employees	%	40	41	42	43	40	Female employee numbers have decreased by 7 per cent compared to last year. This is largely driven by the divestment of parts of our Premium Cigar Division which employed a larger number of females compared to males.
Female Executive Leadership Team (ELT) members	%	11	13	11	14	33 ^A	We are committed to increasing female representation in senior management roles to 30 per cent by 2023.
Female Board members	%	39	33	40	25	22 ^A	The number of female members of the Board on 30 th September 2021 (end of FY21) was 22 per cent. We are pleased to report that from the 15 th November 2021, this has now increased to 36 per cent following new appointments.
Employee turnover rate	%	15	15.1	13.2	13.5	10.2	Employee turnover rate has decreased in comparison to last year. This is the lowest turnover rate in recent years.

FARMER LIVELIHOODS AND WELFARE PERFORMANCE

Performance indicator	2021
Percentage of farmers growing complementary crops¹	88
Percentage of farmers with access to initiatives to improve agricultural productivity²	97
Farming community members benefitting from Imperial leaf partnership projects	130,000

1. As reported by our Strategic Suppliers for highest priority sources.
2. As reported by Strategic Suppliers in high priority countries.

HEALTH AND SAFETY

The health, safety and welfare of our people continues to be of utmost importance to us. Across the business we adopt a OHSE Framework based on the principles of 'plan, do, check, act'. Within our manufacturing sites we go further; as of 30 September 2021, 74 per cent of our factories were independently certified to the international standards OHSAS 18001 or ISO45001. Lost time accident frequency rate fell again during FY21 continuing the long-term

downward trend. Details can be found on page 37 of the Key Performance Indicators section. As well as lagging indicators such as accident rate, we continue to focus on leading indicators to ensure a consistent application of our OHSE Framework and associated operating standards.

It is with deep regret that we report a work-related fatality following a motorcycle accident in Cambodia. A thorough investigation has been conducted and support provided to the family and work colleagues of the

deceased. Road safety remains a key priority for us. Despite operating in some challenging regions we endeavour to ensure the highest levels of safety are applied across all the territories in which we operate.

FARMER LIVELIHOODS AND WELFARE

We recognise that, along with our direct operations, our supply chain has the potential for human rights abuses, and we are committed to working with our suppliers and business partners to improve supply chain standards. We aim to maintain a relationship of trust and integrity with our suppliers. We expect our suppliers to conduct their business in an ethical and responsible manner and to take direct actions to address any potential or actual impacts within their supply chains.

For many tobacco farmers in developing countries tobacco is the primary cash crop. For these farmers to become even more financially sustainable, we believe that working with leaf suppliers, other related industries and local stakeholders, we have a role to play in having a positive impact on their lives. An important piece of this work is through supporting farmers to maximise their tobacco productivity and to diversify their income by developing sustainable income streams that are complementary to their tobacco production. In 2021, 88 per cent of our suppliers' contracted farmers are growing complementary crops¹, such as vegetables, corn or fruit trees, and 97 per cent have access to initiatives aimed at increasing their tobacco income²; this includes a wide range of programmes, from provision of seeds and expertise to assisting with access to markets for non-tobacco cash crops. Some of these are projects directly supported by suppliers and some are directly funded by Imperial.



74%

OF OUR MANUFACTURING SITES WERE INDEPENDENTLY CERTIFIED TO THE INTERNATIONAL OCCUPATIONAL HEALTH AND SAFETY STANDARDS OHSAS 18001 / ISO 45001

88%

OF OUR SUPPLIERS' CONTRACTED FARMERS ARE GROWING COMPLEMENTARY CROPS

1. As reported by our strategic suppliers for highest priority sources.
2. As reported by strategic suppliers in high priority countries.

We maintain a dialogue with our suppliers, and encourage the work they are doing in their farming communities. Additionally, our ongoing support through our Leaf Partnership programme continued in FY21 with Imperial providing financial support to projects in 12 countries. These projects are benefiting as many as 130,000 farmers and their families. There are a wide range of projects, from increasing access to clean drinking water to projects aimed to increase school attendance, and helping farmers to be more resilient against the effects of climate change.

In 2021, we widened our stakeholder engagement for us and our suppliers to better understand what is happening on the ground in several tobacco sourcing countries. This included engaging international experts to conduct supply chain impact assessments and local partners to work with implementing projects that have the most positive impact.

CONSUMER HEALTH

We understand society's concerns about the health risks associated with smoking and recognise the role we have to play in helping reduce the impact of combustible tobacco on consumer health.

We substantiate the harm reduction potential of our NGP through our multi-stage, multi-year testing and research programme. This assessment is done for each NGP type compared to cigarettes to assess the relative risk.

By the end of financial year 2021, we had the following assessment completion rates:

- 75 per cent for our vape device, myblu (compared to 17 per cent in 2019)
- 35 per cent for our heated tobacco device, Pulze (compared to 12 per cent in 2019)
- 38 per cent for our tobacco-free oral nicotine pouch product, ZoneX (compared to 10 per cent in 2019)

CONSUMER HEALTH CASE STUDIES

Image removed

Vape (myblu):

New clinical data suggests myblu efficiently delivers satisfying levels of nicotine to users' bloodstreams – but, importantly, does not exceed that of combustible cigarettes. Recent trials also demonstrate adult smokers who transition either exclusively or partially to myblu experience rapid and substantial reductions in exposure to harmful chemicals.

Our latest perception and behavioural data suggests while adult smokers understand that myblu is not risk-free, they also understand it's likely to be less harmful than combustible cigarettes.

By the end of fiscal year 2021, our pilot market in North Carolina (USA) revealed high consumer and trade acceptance of our proposition. Our conscious strategy to ensure that our advertising only targets existing adult smokers, has confirmed that the vast majority of myblu users are adult smokers and that myblu is not a "gateway" to combustible cigarette smoking ("gateway effect"<0.1%).

Image removed

Oral nicotine delivery (Skruf):

We currently have a Nordics focused approach on our Oral Nicotine business where Skruf and ZoneX are performing very well. With a deep consumer insights-led approach, we have now created differentiated positionings for our brands targeting different consumer segments. New clinical data confirms our nicotine pouches efficiently deliver nicotine to users' bloodstreams and are deemed satisfying alternatives to combustible cigarettes that reduce the desire to smoke. Nicotine pouches demonstrate a favourable short-term safety profile, and while users understood correctly these products are not risk-free, they perceive them to be less harmful than combustible cigarettes. Perception data suggests product appeal is limited to adult smokers and traditional tobacco users, with recent and long-term quitters, never-smokers and youth disinterested in trying (0-4% likely) or purchasing (0.5-4% likely). Finally our behavioural data suggests the main intent to purchase stems from a desire to reduce smoking-related health risks.

Image removed

Heated tobacco (Pulze):

Pulze is our heat-not-burn device offer for consumers, for which our iD sticks are available in a range of flavours. We have launched this product in FY21 in Greece and the Czech Republic and are carefully evaluating all our launch variables with consumers, with a view to continuously optimising the same.

Pulze's aerosol contains up to 96 per cent fewer harmful chemicals compared to combustible cigarette smoke. This translates directly to substantially reduced in-vitro biological responses. The Pulze proposition is appealing to adult smokers. As part of our optimisation process, Pulze's scientific substantiation has now entered the clinical assessment phase.

We have published 25 peer-reviewed Imperial authored papers, presented 40 poster presentations and delivered 23 lectures at conferences over the last five years. We continue to make our scientific research publicly available; find out more at our dedicated science website.

Image
removed

HUMAN RIGHTS DUE DILIGENCE PROGRAMME TOBACCO LEAF SUPPLY

As an international business we recognise the role we have in promoting respect for human rights.

Our policy and approach are guided by the *international human rights principles* in line with the International Bill of Human Rights, the International Labour Organisation's (ILO) core conventions and the principles and guidance contained within the United Nations Guiding Principles on Business (UNGP) and Human Rights and the OECD guidelines for responsible business. The UNGPs require that an ongoing management process is implemented to ensure that a company meets its responsibility to respect human rights.

We have developed a human rights due diligence framework that is used to monitor compliance with our *due diligence processes* and identify areas for improvement.

The human rights due diligence process is based on four key pillars of identifying and prioritising risk, taking action, monitoring performance and review and communication.

The framework will support in strengthening our processes for identifying, managing and mitigating human rights risk.

GOVERNANCE PERFORMANCE

Governance education modules are rolled out to employees with online access based on role and location. For employees who do not have access to the online system, we work with local markets to provide translated PDF versions of courses that can be used locally to deliver face-to-face training. All employees are required to complete these modules.

E-learning course title	Commentary
Code of Conduct	This course introduces our Code of Conduct, reviews our Company values, why we have a Code and how we all have a responsibility to follow our Code of Conduct, which is translated into 32 languages.
Code of Conduct Part 2	This course explains the responsibilities each of us has, regardless of our role, seniority or location, to act in ways that promote a culture of mutual trust and respect.
Competition Law: An Overview	This course provides guidance to employees on how to be aware of, recognise and avoid being involved in illegal competition as well as providing examples of common violations of competition law.
Give and Get Bribe: An Antibribery Vignette	This course is designed to refresh awareness of laws that make it a crime to bribe foreign government officials to gain a business advantage.
Modern Slavery	During the year we translated this e-learning course into a further three languages. This short overview takes a global look at the human rights abuse of modern slavery and explains how employees can raise concerns, and is now available in 15 languages. An exercise carried out in Laos and Madagascar has delivered the course in classrooms to 450 people that do not have access to computers, including farmers.
Combatting Illicit Trade	This course focuses on combatting illicit trade in two ways, through our collective responsibilities and by every employee taking personal responsibility. Throughout the course there are opportunities to check understanding of the illicit trade risk and our efforts to combat it.
Information Security: Phishing	This course focuses on how to protect yourself and data properly and the consequences following a significant breach or leak.
Share Dealing Code	This course provides information about share dealing and the Market Abuse Regulation across the European Union (EU).
Data Privacy and Protection: GDPR	This course provides an overview of some key requirements of the GDPR, and includes significant examples of how employees must handle personal data and interact with the individuals whose data they hold.
Data Protection and Privacy	This course defines personally identifiable information and provides an overview of the responsibilities and steps required to protect it.

MAINTAINING HIGH STANDARDS OF GOVERNANCE

Doing business in the right way, having integrity and not tolerating poor behaviour, fraud or bribery ensures we behave responsibly towards our stakeholders. How we conduct ourselves and our business can have wider impacts for society. Our Code of Conduct is embedded throughout our Company and drives our responsible approach. It is aligned with the policies, internal controls and risk management processes that underpin our strategy.

The Code sets out the responsible behaviours we expect from employees in their dealings with colleagues, customers, consumers, suppliers,

agents, intermediaries, advisers, governments and competitors. All employees and business partners are expected to act with integrity in accordance with the standards of behaviour set out in the Code.

SUPPLIER CODE OF CONDUCT

We expect our suppliers to conduct their business in an ethical and responsible manner and comply with all applicable laws and regulations. Our Supplier Code, based on our Code of Conduct, sets out the behaviours we expect our suppliers to demonstrate. Our Supplier Code of Conduct is embedded into our Procurement Policy and processes which govern how we select and contract with our suppliers. Our Supplier Code of Conduct is

available in 19 languages and was updated in 2021 to reference our newly published Anti-Facilitation of Tax Evasion policy.

SPEAKING UP

This year we launched our new Speaking Up platform, which is available both to our employees and to other stakeholders, including suppliers and farmers. The new platform offers a wide range of reporting routes and supports anonymous reporting and feedback.

PERFORMANCE ESG REVIEW – CONTINUED

Our supporting Speaking Up policy has been updated to align with the new process, with the policy being made available both internally and on our website. Internal processes, including procurement and human resources, have been aligned to the new Speaking Up process.

Issues raised during the year included allegations of mistreatment of employees, claims of unfair treatment or wrongful termination, allegations of unprofessional behaviour, pay concerns, and misuse of company property. Our HR teams were involved in dealing with a number of these issues, whilst others were managed by the Company Secretary, with investigation support and advice provided by members of Finance, Group Security, Group Legal, HR and Internal Audit. At all times, the anonymity of the individual making the complaint was a key consideration.

RESPONSIBLE MARKETING AND YOUTH ACCESS PREVENTION

We are committed to marketing and advertising our products responsibly within the laws, codes of practice and voluntary agreements of those countries within which we operate. This year we updated our marketing standards to reflect developments in technology and our NGP portfolio. We created overarching Marketing Principles for our Combustible and NGP categories, which are available on our website. All Imperial Brands companies and employees, as well as the agencies who work with us, are expected to adhere to our standards and local legislation. Where local legislation is stricter, this takes precedence, and where local legislation may be less stringent, then our own high marketing standards take precedence. We aim to roll out an interactive training programme for employees and agencies in the next financial year. All our marketing materials are reviewed and receive legal sign off.

Tobacco and NGP are for adult smokers only. We do not want youths to use any of our products and take youth access prevention (YAP) very seriously. We fully support YAP and minimum age restrictions for the sale or purchase of our products.

YOUTH ACCESS PREVENTION IN THE USA

Looking to the USA, where vaping and YAP remains an important issue, the latest publicly available National Youth Tobacco Survey (NYTS) data (2020), released by the Centers for Disease Control and Prevention (CDC), demonstrates the considerable impact Imperial's YAP programme has had in the US. For instance:

- In 2020, only 13 of 14,531 respondents reported using blu vaping products at any point in the past 30 days (0.12 per cent of the population), down from 111 of 19,018 in the NYTS 2019 dataset (0.59 per cent of the population).
- Use of blu vaping products by tobacco-naïve youth remained very low in 2020. Among youth reported to have vaped blu at any point in the past 30 days, only four respondents within the NYTS 2020 dataset were tobacco naïve (0.028 per cent of the total population).

We believe our YAP efforts in the USA provide a model for other responsible manufacturers to follow. More information is available on our science website.

INVESTOR BENCHMARKS

Our ESG management and performance is evaluated by a wide range of external rating agencies.

We were rated A in June 2021 by MSCI ESG Ratings. In its December 2020 ESG Rating report, Sustainalytics gave us a medium risk rating score and concluded that Imperial is at medium risk of experiencing financial impacts from ESG factors due to its medium exposure and strong management of material ESG issues. Imperial was noted for its strong corporate governance performance, which is reducing its overall risk. Vigeo Eiris (part of Moody's ESG solutions since 2019) gave us an ESG Scorecard of 42/100 and a Company Reporting Rate of 82 per cent in October 2021.

In 2020, CDP awarded us an A rating for our Climate Change submission for a second consecutive year. We were also awarded an A- for our 2020 CDP Water disclosure indicating that we are implementing current best practice in water management across our operations and supply chain. We await the results of our 2021 submissions to CDP.

We continue to participate in the CDP Supply Chain Programme, which gathers information from our key suppliers on how they are managing their climate risks and opportunities. We are pleased to be recognised as a Supplier Engagement Leader by CDP in 2019 and 2020.

We have also completed the investor-backed Workforce Disclosure Initiative since 2019. This benchmark is currently based on disclosure, and performance scores have not been allocated.

We believe it is important for rating agencies to work together with companies, investors and other stakeholders to improve consistency and transparency in producing robust ESG data and ratings.

INDEPENDENT ASSURANCE

We appointed Ernst & Young LLP to provide limited independent assurance over selected sustainability content within the Annual Report ("the Report"), as at and for the period ended 30 September 2021. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

These procedures were designed to conclude on the accuracy and completeness of selected sustainability indicators, which are indicated in the Report with an A.

An unqualified opinion was issued and is available on imperialbrandspic.com, along with further details of the scope, respective responsibilities, work performed, limitations and conclusions.

Footnotes

A. Select 2021 data has been independently assured by Ernst and Young LLP (EY) under the limited assurance requirements of the ISAE 3000 standard. The Assurance Opinion is available on our website.

1. Our 2021 environmental data follows the reporting period Q4 financial year 2020 to Q3 financial year 2021. This is to allow for data collection, validation and external assurance. We use the GHG Protocol Standard to inform our reporting of Scope 1 and 2 emissions. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.
2. Our health and safety data is for the full 2021 financial year. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.
3. Accidents reported do not include commuting to or from work or third parties such as distributors.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Imperial Brands is committed to implementing the recommendations of the TCFD and providing transparency to our stakeholders on progress. We are pleased to provide the below progress update as we prepare for full implementation of these requirements in our 2022 Annual Report, which supplements the information contained within the Annual Report.

Governance:

We have embedded climate governance across all levels of the organisation:

1. The Board of Directors is responsible for the ESG performance of the Company, including climate risk.
2. The cross-functional ESG Steering Committee, chaired by the CEO of Imperial Brands, is responsible for delivering the ESG strategy and our climate risk responsibilities.
3. Management-level responsibility has been assigned for specific climate risks and opportunities.

Next steps:

We will continue to evolve our approach to managing climate risks and opportunities during FY22.

Key actions will include:

Developing a comprehensive financially quantified scenario analysis to inform our decisions across both risk and strategy

Developing a climate transition plan to co-ordinate efforts across our business in pursuit of our decarbonisation targets

Continuing to integrate climate-related information into our Annual Report and Accounts

Continuing to engage with suppliers on their carbon reduction plans

Scenario analysis:

We have undertaken an initial qualitative assessment of climate risk and opportunity to inform both our risk management and strategic decisions.

We considered a "2 degrees" aligned scenario to test our value chain resilience to an ambitious reduction in GHG emissions, as well as considering physical impacts across our priority locations.

Risk management:

Based on the scenario analysis findings, we have integrated climate risk management into our Enterprise Risk Management framework by considering the impact of climate change on each of our principal risks. This allows us to continue to manage and monitor climate risk effectively as part of core business activities.

Climate risks

Extreme weather events causing disruption to operations, supply and distribution of products

Compliance obligations from new and existing climate legislation

Increased costs of energy and raw materials

Strategy:

Our strategy is built on our commitment to ESG. We have identified a number of climate-related opportunities through our scenario analysis. We are now working towards securing these opportunities as we deliver on our decarbonisation commitments and integrate ESG fully into our Group business strategy.

Climate opportunities

Increased recycling rates and reuse of materials to reduce costs

Shift to renewable energy to mitigate potential price increases

Investing in supply chain resilience to reduce disruption

Metrics and targets:

We are delivering on our science-based targets:

Scope 1 and 2 emissions reduced by 25% by 2030

Scope 3 emissions reduced by 20% by 2030

50% of suppliers by spend having SBTs by 2023

Landfill waste reduced by 50% by 2030

Water use reduced by 15% by 2030

EUROPE REGION



JOERG BIEBERNICK
PRESIDENT, EUROPE REGION

Europe delivered gains in regional market share and a 5.6 per cent increase in adjusted operating profit. These results have been achieved despite COVID-19 restrictions reducing travel and affecting market and channel trends, particularly the global duty free channel. Stronger market size trends in Northern Europe, together with share growth in the UK and Spain and improved NGP performance, were partly offset by lower sales in our global duty free business, despite a small second-half recovery, and in traditional holiday destination markets in Southern Europe.

Share gains in the UK and Spain were driven by our tobacco portfolio work and a new strategic focus on local jewel brands, such as Embassy and Nobel. In Germany, investments in enhancing the effectiveness and coverage of our sales force and distribution have driven an encouraging improvement in market share trend in recent months. It will take time though for our brand initiatives and portfolio investments to rejuvenate our overall share performance.

Tobacco volumes decreased by 2.6 per cent, driven by relative market size improvements in the Northern Europe markets of UK, Germany and Norway from consumers staying at home. A gradual recovery from COVID-19 led to a modest increase in travel numbers in the second half and a small improvement to our global duty free sales and southern European markets.

AT A GLANCE

REGIONAL MARKET SHARE

⬆️ **+10bps**

VOLUMES

⬇️ **-2.6%**

TOBACCO & NGP NET REVENUE*

⬆️ **+0.2%**

TOBACCO NET REVENUE*

⬇️ **-0.6%**

NGP NET REVENUE*

⬆️ **+28.8%**

TOBACCO & NGP ADJUSTED OPERATING PROFIT*

⬆️ **+5.6%**

* Change at constant currency.

⬆️ POSITIVES

- Germany and UK continue to deliver strong financial performances, with market size benefiting from reduced travel
- Local jewel brand focus benefits market share gains in Spain and the UK
- Heated tobacco market trials underway and targeted investment behind blu holding share

⬇️ NEGATIVES

- Reduced travel impacts sales in global duty free and traditional holiday destinations
- German share still declining although with an improving trend
- Travel recovery continues to remain difficult to predict due to varying COVID-19 restrictions across Europe

		Full year result		Change	
		2021	2020	Actual	Constant currency
Tobacco volume	bn SE	126.7	130.1	-2.6%	
Total net revenue	£m	3,551	3,569	-0.5%	+0.2%
Tobacco net revenue	£m	3,425	3,471	-1.3%	-0.6%
NGP net revenue	£m	126	98	28.8%	28.8%
Adjusted operating profit	£m	1,670	1,582	5.6%	5.6%

Volume trends in Spain, Italy and Greece were still down relative to historic levels.

Total net revenue grew 0.2 per cent at constant currency, with tobacco net revenue down 0.6 per cent at constant currency. This reflects a price mix increase of 2.0 per cent, which is lower than recent years, as a result of temporary one-off benefits last year related to VAT changes in

Germany and UK anti-forestalling arrangements. Excluding these temporary changes, price mix would have been 3.0 per cent, impacted by lower global duty free and travel retail sales. NGP revenues were up 28.8 per cent, with sales growth across a number of markets.

Our blu share in several markets such as the UK, France and Italy remains relatively stable. In heated tobacco we

are on track with our pilot launches in the Czech Republic and Greece, although it is too early to draw conclusions until we review repurchase rates.

Adjusted operating profit was up 5.6 per cent at constant currency, benefiting from reduced losses in our NGP business and lower regulatory related costs.

PRIORITY MARKETS IN EUROPE

GERMANY

13% of Group net revenue

Duty paid sales in Germany continued to remain strong, with fewer travel and border restrictions benefiting market size. We increased investment to improve sales coverage and strengthen our sales execution to address the share declines. We have also begun to implement the planned brand investments to reposition certain brands over time. This includes innovation targeted at meeting consumer preferences for larger pack formats. In NGP, blu vapour brand share has been maintained with increased pricing and lower levels of investment improving returns. The modern oral nicotine category continues to wait for a clear legal definition, resulting in delays in category development.



UK

9% of Group net revenue

Reduced travel, lower levels of illicit trade and the absence of a manufacturing price increase benefited duty-paid tobacco market size, with an improved trend against historic norms. Our tobacco share performance benefited from an enhanced regional and key account focus, with growth driven from the launch of Embassy Signature. Market share was partly impacted by pressure following the characterising flavours ban in May 2020. Our blu vapour brand share remains stable, with refinements in our investment levels supporting improved profitability.



SPAIN

4% of Group net revenue

Reduced tourist numbers as a result of the global pandemic continue to negatively impact market size in Spain. Despite this, our domestic performance has benefited from a renewed focus on leveraging the strong heritage of our local brand portfolio. Increased investment behind our local brands, Fortuna and Nobel, combined with limited edition formats have supported market share growth. We also had success with a super-king variant of our West brand. blu remains market leader of the vapour category, with market share holding up well despite lower levels of investment.



Combustible share

19.9% (-50 bps)

40.7% (+20 bps)

29.1% (+10 bps)

AMERICAS REGION

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KIM REED
PRESIDENT AND CEO, AMERICAS REGION

We delivered a strong combustible tobacco performance in the US, which is our largest single market, contributing 33 per cent of Group net revenue. Market fundamentals remain attractive, with strong cigarette pricing continuing to offset relatively reduced rates of tobacco market size decline as well as further growth in the mass market cigars segment.

We have increased investment behind our strategic priorities, including the recruitment and training of 200 additional sales people to enhance our coverage and distribution. We have also invested in brand initiatives for Winston, which we are trialling in Texas.

The investment and additional focus on performance management delivered a third consecutive year of share gains in the US cigarette market, up 20 basis points, to 9.1 per cent. Share growth has been driven by Sonoma and Crowns in the deep discount segment, while we have maintained Winston and Kool's share of their sub-premium categories and managed the ongoing decline in our non-focus brands.

Tobacco volumes were up 1.1 per cent, driven by strong mass market cigar growth, which more than offset the more moderate cigarette volume declines.

AT A GLANCE

USA PRIORITY MARKET SHARE

⬆️ **+20bps**

VOLUMES

⬆️ **+1.1%**

TOBACCO & NGP NET REVENUE*

⬆️ **+9.6%**

TOBACCO NET REVENUE*

⬆️ **+10.4%**

NGP NET REVENUE*

⬆️ **-15.5%**

TOBACCO & NGP ADJUSTED OPERATING PROFIT*

⬆️ **+8.0%**

* Change at constant currency.

⬆️ POSITIVES

- Cigarette share growth up 20 basis points to 9.1 per cent
- Cigarette pricing remains strong
- Backwoods and Dutch Masters continue to perform strongly in the mass market cigar segment

⬆️ NEGATIVES

- Results affected by US state litigation settlement charges
- PMTA outcome still pending, creating lack of clarity for vapour category development

		Full year result		Change	
		2021	2020	Actual	Constant currency
Tobacco volume	bn SE	21.5	21.3	1.1%	
Total net revenue	£m	2,534	2,480	2.2%	9.6%
Tobacco net revenue	£m	2,478	2,409	2.9%	10.4%
NGP net revenue	£m	56	71	-21.2%	-15.5%
Adjusted operating profit	£m	1,037	1,032	0.4%	8.0%

Our mass market cigar portfolio performed well with volumes up 45 per cent and share growth of 500 basis points driven by Backwoods and the launch of a Dutch Leaf variant in the value segment. We are now established as the second largest manufacturer in the US market, having been number four a year ago. Sales in the premium natural leaf segment have benefited from increased activations and limited edition launches of Backwoods. Overall mass market cigar performance also benefited from manufacturing and investments in improved leaf supply.

On a constant currency basis, tobacco net revenue increased by 10.4 per cent, benefiting from strong cigarette pricing and the success of our mass market cigar sales in a growing category.

Our NGP revenues were down 15.5 per cent on a constant currency basis, with second half revenues affected by the increasingly competitive environment with greater discounting in the category. In the second half, we launched a pilot to test a new consumer marketing proposition for blu, with a new packaging and consumer communication approach.

Adjusted operating profit was 8.0 per cent higher at constant currency, driven by the strong growth in mass market cigar sales, tobacco pricing and lower NGP write-offs. Profitability was also impacted by a £52 million charge for litigation settlement costs in Minnesota and Texas, which removes uncertainty at a reasonable cost. Excluding these settlement costs, adjusted operating profit grew by 13.1 per cent at constant currency.

Image removed

AFRICA, ASIA AND AUSTRALASIA REGION

Image removed

PAOLA POCCHI
PRESIDENT, AFRICA, ASIA AND AUSTRALASIA REGION

Our results were affected by two events: the sale of the Premium Cigar Division in October 2020 and changes to the Australian excise regime. Notwithstanding these impacts, our Africa, Middle East and Asia regions reported solid performances and supported a 30 basis point improvement in overall regional share.

The results presented here are on an organic basis, excluding the contribution from the Premium Cigar Division in both periods to aid comparison of performance on a like-for-like basis. The impact of the divestment is analysed in notes 3, 6 and 10 of the financial statements on adjusted performance measures.

Our performance was also affected by changes in the Australian excise regime, which resulted in an impact on net revenue and adjusted operating profit of £88 million. This has been driven by the Australian Government's decision to step away from the 12.5 per cent annual excise duty accelerator and the associated reduction in inventory levels and the phasing of stock profit. Looking ahead, there will be a further net headwind of c. £10 million to net revenue and adjusted operating profit in the first half of FY22 as the lower stock profit is partially offset by favourable inventory movements.

AT A GLANCE

REGIONAL MARKET SHARE

⬆️ **+30bps**

VOLUMES

⬇️ **-4.2%**

TOBACCO & NGP NET REVENUE*

⬇️ **-8.2%**

TOBACCO NET REVENUE*

⬇️ **-6.8%**

NGP NET REVENUE*

⬇️ **-78.3%**

TOBACCO & NGP ADJUSTED OPERATING PROFIT*

⬇️ **-4.7%**

* Organic change at constant currency.

⬆️ POSITIVES

- Australia share performance improved during the second half in response to investment
- Africa market share and financial performance benefits from focus on local jewel brands

⬇️ NEGATIVES

- Financial results affected by changes to Australia excise duty regime (£88m)
- NGP revenues lower due to strategic exits in Japan and Russia

Image removed

		Full year result		Change	
		2021	2020	Actual	*Organic constant currency
Organic tobacco volume	bn SE	83.7	87.4	-4.2%	
Total organic net revenue	£m	1,504	1,689	-11.0%	-8.2%
Organic tobacco net revenue	£m	1,498	1,657	-9.6%	-6.8%
NGP net revenue	£m	6	32	-81.1%	-78.3%
Organic adjusted operating profit	£m	598	643	-7.0%	-4.7%

* Organic performance excludes the contribution of the Premium Cigar Division from both financial reporting periods following its divestment in October 2020. The Premium Cigar Division contributed £21m to net revenue in 2021 (2020: £247m) and £3m to adjusted operating profit (2020: £31m). Further details are provided in notes 3, 6 and 10 of the financial statements.

The Africa region continues to be an attractive portfolio of markets with opportunities for further value growth. Gauloises gained share in Morocco by leveraging its international brand equity, while our focus on local jewel brands delivered share gains in Burkina Faso and the Côte d'Ivoire.

Our results in the Middle East were driven primarily by Saudi Arabia, where travel restrictions benefited our domestic sales, driving a good performance of Davidoff and West with strong demand for fresh seal formats.

In Asia, we delivered a stable performance in Taiwan driven by share growth of the Davidoff Absolute range supported by its strong equity and by West, which has benefited from value seeking consumers.

Organic tobacco volumes were 4.2 per cent lower, with volume declines in Turkey and Australia, partially offset by market share-driven volume gains in Morocco, the Côte d'Ivoire and Saudi Arabia.

Our organic financial results were affected primarily by the excise duty changes in Australia. Organic tobacco price mix of -2.6 per cent contributed to the tobacco net revenue decline of 6.8 per cent at constant currency, primarily reflecting the Australian excise duty changes. Excluding this impact, organic tobacco price mix was up 2.7 per cent and tobacco net revenue was down 1.5 per cent.

NGP net revenues declined 78.3 per cent at constant currency, reflecting our strategic decision to exit the vapour market in Russia and Japan and the heated tobacco market in Japan, as we prioritise investment in other market category combinations in line with our strategy.

Organic adjusted operating profit was down 4.7 per cent at constant currency, primarily reflecting the excise duty changes in Australia.

PRIORITY MARKET IN AFRICA, ASIA AND AUSTRALASIA

AUSTRALIA

4% of Group net revenue

Our share performance has been affected by the timing of our price increase and competitor discounting, particularly in the first half of the year. We made changes to our sales force execution and enhanced our key account management, which delivered a much improved share trend in the second half. Our results were also affected by a market size decline of 9% and continued downtrading to the 'fifth price tier', which now accounts for more than a third of the market. Our Parker & Simpson brand continues to perform well within the 'fifth price tier'.

Image removed

Combustible share

31.5%
(-120 bps)

Pack images are internal only

DISTRIBUTION

Logista has continued to distribute products to customers with almost all the points of sale, products and services classified as essential by governments, even during the periods when COVID-19 still restricted movements in many of its end markets.

Net revenue grew 5.8 per cent at constant currency driven by growth in all markets and activities except tobacco distribution in France and Portugal. Pharmaceutical distribution, parcel transport (Nacex) and the distribution of convenience products in Spain and Italy recorded double-digit growth. Adjusted operating profit increased 14.8 per cent at constant currency due to efficiency improvement initiatives.

The adjusted operating profit contribution to the Group, after eliminations, increased by 11.3 per cent. This reflects the positive performance of Logista's adjusted operating profit delivery as outlined above, the benefit of inventory valuations following tax and price movements in tobacco products and the recovery from negative COVID-19 impacts last year.

In line with other Imperial-owned entities, we continue to benefit from an intercompany cash pooling arrangement with Logista, which further enhances the Group's liquidity. On a 12-month basis, the daily average cash balance loaned to the Group by Logista was £2.0 billion, with movements in the cash position during the 12-month period varying from a high of £4.0 billion to a low of £1.3 billion, primarily due to the timing of excise duty payments. At the period end, the loan position was £1.8 billion compared to £2.4 billion at 30 September 2020.

AT A GLANCE

NET REVENUE*

⬆ **+5.8%**

ADJUSTED OPERATING PROFIT EXCLUDING ELIMINATIONS*

⬆ **+14.8%**

ADJUSTED OPERATING PROFIT MARGIN*

⬆ **+180bps**

ADJUSTING OPERATING PROFIT INCLUDING ELIMINATIONS*

⬆ **+11.3%**

* Change at constant currency.

⬆ POSITIVES

- Continued distribution through COVID-19 as products and services classified as essential
- Strong performance in courier and long-distance transportation businesses
- New contracts in pharmaceutical distribution
- Efficiency improvement initiatives effective

⬆ NEGATIVES

- Unwind of FY20 COVID-19 duty deferral impacted cash flow in the year

		Full Year Result		Change	
		2021	2020	Actual	Constant Currency
Net revenue	£m	1,069	1,015	+5.3%	+5.8%
Adjusted operating profit	£m	258	226	+14.2%	+14.8%
Adjusted operating profit margin	%	24.1	22.3	+180 bps	+180 bps
Eliminations	£m	7	13	-50.3%	-50.0%
Adjusted operating profit (inc. eliminations)	£m	265	239	+10.7%	+11.3%

STRENGTHENING OUR PERFORMANCE



LUKAS PARAVICINI
CHIEF FINANCIAL OFFICER

SUMMARY FINANCIAL INFORMATION	
ORGANIC VOLUMES ↓ 2.9% led by organic declines in market size, offset by market share gains	ORGANIC ADJUSTED NET REVENUE ↑ 1.4% driven by robust price mix & strong cigar sales
REPORTED OPERATING PROFIT ↑ 15.2% driven by disposal of the Premium Cigar Division	ORGANIC ADJUSTED OPERATING PROFIT ↑ 4.8% driven by reduced NGP losses
REPORTED BASIC EPS 299.9p an increase of 89.5%	ORGANIC ADJUSTED EPS 246.5p an increase of 2.8% on a constant currency basis
CASH CONVERSION 83% 2020: 127%	ADJUSTED NET DEBT/ EBITDA 2.2x 2020: 2.7x

“

Finance is a critical business partner to the organisation and we are investing to create agile teams that will enable faster decision-making and support our stewardship agenda.

”

This year's financial results reflect the good start we have made in implementing our new strategy. Excluding the divestment of our Premium Cigar Division, net revenues grew 1.4 per cent and organic Group adjusted operating profit rose 4.8 per cent, both on an organic constant currency basis.

Reported operating profit rose 15 per cent, mainly due to a profit of £281 million related to the disposal of the Premium Cigar Division.

Our business remains cash generative, delivering £1.5 billion of free cash flow, and this, together with other actions taken, has enabled us to reduce reported net debt by £1.8 billion to £9.4 billion.

Capital discipline remains a key focus and our objective to delever continues, with net debt/EBITDA reducing from 2.7x in 2020 to 2.2x in 2021. We remain committed to delivering leverage at the lower end of 2.0x to 2.5x.

In line with our strategic ambition, 2021 was a key transitional year in our two year strengthening phase during which we are building the foundations for future growth, underpinned by investments behind our operational and strategic levers and significant organisational and cultural change.

PERFORMANCE GROUP FINANCIAL REVIEW - CONTINUED

SUMMARY INCOME STATEMENT

£ million (unless otherwise indicated)	Reported		Adjusted		Organic Adjusted	
	2021	2020	2021	2020	2021	2020
Operating profit						
Total Tobacco & NGP	2,991	2,587	3,308	3,288	3,305	3,257
Distribution	148	131	258	226	258	226
Eliminations	7	13	7	13	7	13
Group operating profit	3,146	2,731	3,573	3,527	3,570	3,496
Net finance costs	81	(610)	(417)	(429)	(417)	(429)
Share of profit of investments accounted for using the equity method	11	45	11	45	7	1
Profit before tax	3,238	2,166	3,167	3,143	3,160	3,068
Tax	(331)	(608)	(716)	(642)	(714)	(635)
Profit for the year	2,907	1,558	2,451	2,501	2,446	2,433
Earnings per ordinary share (pence)	299.9	158.3	247.1	254.4	246.5	247.2
Dividend per share (pence)	139.08	137.71	139.08	137.71	139.08	137.71

SUMMARY CASH FLOW STATEMENT - STATUTORY RECONCILIATION

£ million (unless otherwise indicated)	Reported		Adjusted	
	2021	2020	2021	2020
Group operating Profit	3,146	2,731	3,573	3,527
Depreciation, amortisation and impairments	815	910	269	311
EBITDA	3,961	3,641	3,842	3,838
Profit on disposal of subsidiary	(281)	-	-	-
Other non-cash movements	(29)	(85)	(79)	(137)
Operating Cash Flows before movement in Working Capital	3,651	3,556	3,763	3,701
Working capital	(664)	1,042	(664)	1,042
Tax cash flow	(820)	(568)	(820)	(568)
Cash Flows from Operating Activities	2,167	4,030	2,279	4,175
Net capex	(150)	(274)	(150)	(274)
Restructuring	-	-	(112)	(145)
Cash interest	(400)	(420)	(400)	(420)
Loan to third parties	-	(3)	-	(3)
MT dividends	(93)	(85)	(93)	(85)
Free Cash Flow	1,524	3,248	1,524	3,248
Acquisitions / disposals	845	(155)	845	(155)
Shareholder dividends	(1,305)	(1,753)	(1,305)	(1,753)
Net Cash Flow	1,064	1,340	1,064	1,340
Cash Flows from Operating Activities (as above)			2,279	4,175
Tax cash flow			820	568
Net capex			(150)	(274)
Net Cash Flow from Operating Activities post Capital Expenditure pre Interest and Tax			2,949	4,469
Cash Conversion			83%	127%

Adjusted performance measures

When managing the performance of our business we focus on non-GAAP measures, which we refer to as adjusted measures. Management believes that adjusted measures provide an important comparison of business performance and reflect the way in which the business is controlled. These adjusted measures are supplementary to, and should not be regarded as a substitute for, GAAP measures, which we refer to as reported measures. The basis of our adjusted measures is explained in our accounting policies note, which is detailed within our financial statements.

Reconciliations between reported and adjusted measures are included in the appropriate notes to our financial statements and within this financial review. Percentage growth figures for adjusted results are given on a constant currency basis, where the effects of exchange rate movements on the translation of the results of our overseas operations are removed.

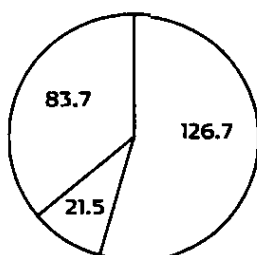
This year we also show organic numbers which exclude the disposed operations of our Premium Cigar Division from both years to show a like-for-like performance; these measures are termed "organic adjusted" and are considered the relevant headline measures for performance commentary. The impact of these changes can be seen in our adjusted performance measures note.

GROUP RESULTS - ORGANIC ADJUSTED CONSTANT CURRENCY ANALYSIS

£ million (unless otherwise indicated)	Full year ended 30 September 2020	Foreign exchange	Constant currency movement	Full year ended 30 September 2021	Change	Organic constant currency change
Organic Tobacco & NGP Net Revenue						
Europe	3,569	(27)	9	3,551	-0.5%	0.2%
Americas	2,480	(184)	238	2,534	2.2%	9.6%
Africa, Asia and Australasia	1,689	(47)	(138)	1,504	-11.0%	-8.2%
Total Group	7,738	(258)	109	7,589	-1.9%	1.4%
Organic Tobacco & NGP Adjusted Operating Profit						
Europe	1,582	(1)	89	1,670	5.6%	5.6%
Americas	1,032	(78)	83	1,037	0.4%	8.0%
Africa, Asia and Australasia	643	(15)	(30)	598	-7.0%	-4.7%
Total Group	3,257	(94)	142	3,305	1.5%	4.3%
Distribution						
Net revenue	1,015	(5)	59	1,069	5.3%	5.8%
Adjusted operating profit including eliminations	239	0	26	265	10.7%	11.3%
Group Organic Adjusted Results						
Organic adjusted operating profit	3,496	(94)	168	3,570	2.1%	4.8%
Adjusted net finance costs	(429)	(1)	13	(417)	2.7%	3.1%
Organic adjusted EPS (pence)	247.2	(7.7)	7.0	246.5	-0.3%	2.8%

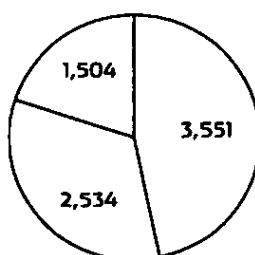
Financials are Organic and adjusted for the impact of the Premium Cigar Division disposal, all of which is in the Africa, Asia and Australasia segment. Net Revenue of £247m has been deducted in 2020 and £21m in 2021. Adjusted Operating Profit of £31m has been deducted in 2020 and £3m in 2021.

VOLUMES BN SE



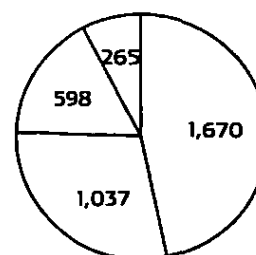
○ Europe	126.7
○ Americas	21.5
○ Africa, Asia and Australasia	83.7

ORGANIC NET REVENUE (ACT RATE), £M



○ Europe	3,551
○ Americas	2,534
○ Africa, Asia and Australasia	1,504

ORGANIC OPERATING PROFIT, £M



○ Europe	1,670
○ Americas	1,037
○ Africa, Asia and Australasia	598
○ Distribution	265

PERFORMANCE GROUP FINANCIAL REVIEW - CONTINUED

SALES PERFORMANCE (£M)

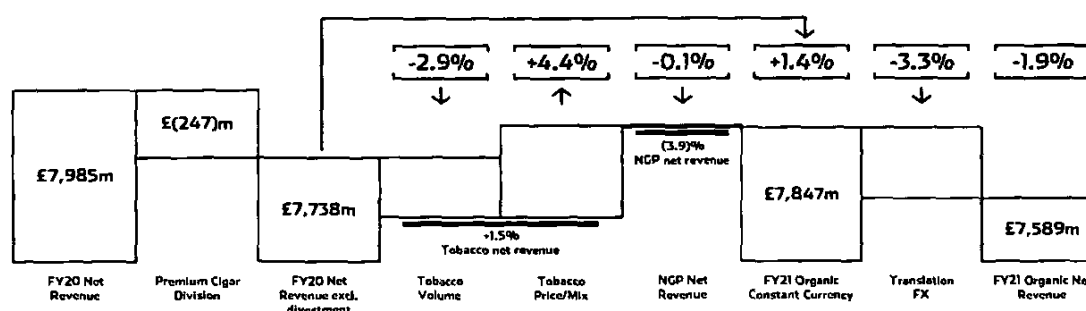
REPORTED REVENUE

⬆️ **0.7%**

ORGANIC ADJUSTED NET REVENUE

⬆️ **1.4%**

- Reported revenue grew 0.7% due to increases in duty and similar items.
- Organic net revenue grew 1.4% at constant currency comprising +1.5% from tobacco and -0.1% from NGP.
- Organic tobacco volumes were down 2.9%, in line with the market decline reflecting weaker duty free and travel retail volumes. This was partly offset by stronger market size in domestic markets such as the UK, Germany and the Nordics.
- Weighted share in our priority markets declined marginally by 2bps, compared to a 17bps decline in the prior year.
- Tobacco price mix of 4.4% was below historic levels, as a result of changes to the Australian excise regime. Excluding this impact price mix was 5.6% driven by pricing and positive market mix as a result of significant growth in US mass market cigars and repatriation of volumes due to travel restrictions.
- NGP revenue decreased 3.9% at constant currency as we exited a number of markets and refocused the category in line with the revised strategy.
- Translation FX was adverse due to sterling strengthening against the US dollar.



OPERATING PROFIT (£M)

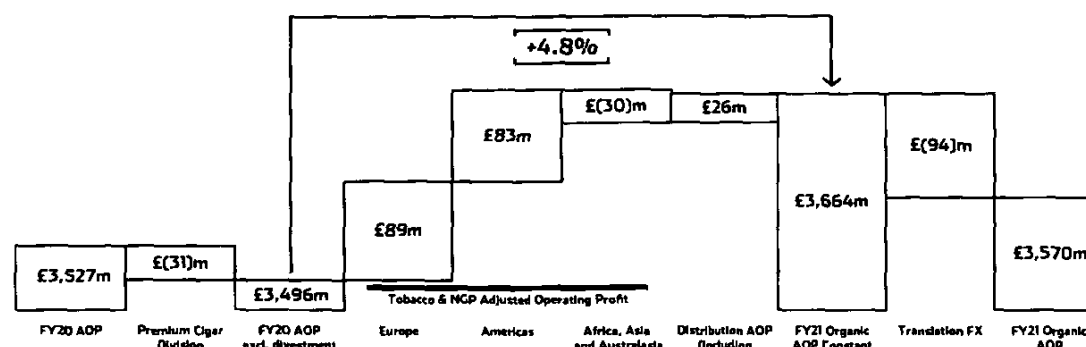
REPORTED OPERATING PROFIT

⬆️ **15.2%**

ORGANIC ADJUSTED OPERATING PROFIT

⬆️ **4.8%**

- Reported Group operating profit of £3,146 million grew 15.2%, driven by gains on disposal of the Premium Cigar Division.
- Organic adjusted Group operating profit increased 4.8% at constant currency.
- Tobacco and NGP adjusted operating profit grew £142m or 4.3% at constant currency.
- Tobacco organic adjusted operating profit was down £42 million (-1.2%) at constant currency. Strong underlying performance, led by mass market cigar volumes and pricing, was more than offset by lower stock profit in Australia (£88 million) and a charge to meet US state litigation (PSS) costs (£52 million).
- NGP losses reduced by £184 million or 57% as we optimised investment and as prior year write-downs (£124 million) were not repeated to the same extent.
- Distribution profit grew 11.3% reflecting good performance in pharmaceutical, parcel and convenience distribution.
- Translation FX was adverse due to sterling strengthening against the US dollar.



EARNINGS PER SHARE (PENCE)

REPORTED EPS

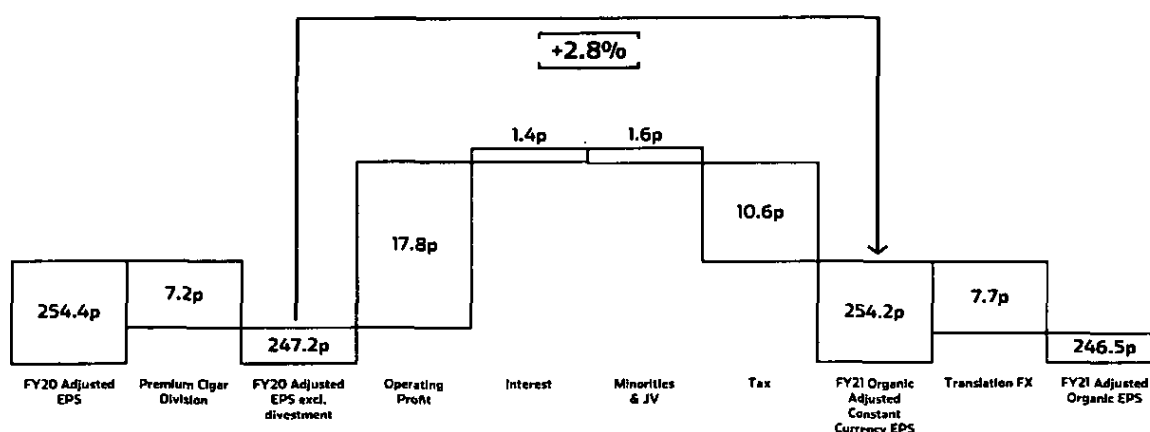
↑ **89.5%**

ORGANIC ADJUSTED EPS

↑ **2.8%**

- Reported EPS increased 89.5% to 299.9 pence driven by marked to market foreign exchange accounting gains on financial instruments caused by a 6.0% weakening in the euro against sterling and the year-on-year impact of the Premium Cigar Division disposal.

- Organic adjusted EPS was 246.5 pence, up 2.8% at constant currency due to lower NGP losses, partially offset by an increase in the effective tax rate to 22.6%.
- Adjusted net finance costs are impacted by the buyback of a \$1.25 billion US bond, with corresponding savings expected in 2022.



CASH FLOW (£M)

Cash flows from operating activities were £2,167 million (2020: £4,030 million), impacted primarily by an expected working capital outflow driven by changes to duty payment dates that we announced in 2020.

This also impacted free cash flow, with a £1.7 billion movement in working capital coming largely from our Logista markets in Western Europe, where governments changed the dates of excise collection linked to the COVID-19 pandemic.

Net cash flow of £1,064 million (2020: £1,340 million) benefited from the proceeds from the sale of the Premium Cigar Division and the planned rebase of shareholder dividends that partly offset the working capital outflow.

Capital expenditure was £0.2 billion, a reduction of £0.1 billion on the prior year. The reduction was due to the suspension of some projects whilst the strategic review was undertaken together with COVID-19 related delays on other projects.

Cash conversion was 83%, in line with expectations (2020: 127% headline / 107% underlying) driven by the previously signalled working capital outflow.

Active capital discipline remains a key focus for 2021 and beyond and this year's strong cash flows along with proceeds from the Premium Cigar Division disposal have supported our reduction in gearing to 2.2 times (2020: 2.7 times).

CASH CONVERSION (%)

21	83
20	127
19	95
18	97

£ million (unless otherwise indicated)

	2021	2020
Reported Cash Flows from Operating Activities	2,167	4,030
Reported Free Cash Flow	1,524	3,248
Reported Net Cash Flow	1,064	1,340
Cash Conversion	83%	127%

PERFORMANCE GROUP FINANCIAL REVIEW – CONTINUED

RETURN ON INVESTED CAPITAL

Return on invested capital (ROIC) increased by 130 basis points, driven primarily by a reduction in annual average capital.

As part of our FY21-23 LTIP we redefined our return on invested capital metric to better reflect management influence which resulted in a new, tightly defined and transparent ROIC calculation,

which can be directly calculated from information contained within the Annual Report and Accounts.

Based on this new measure, 2021 average annual ROIC was 16.5% (2020: 15.2%, on equivalent basis).

A strong cash focus led to a £1.7 billion reduction in our annual average capital, driving an improvement in returns, with the benefit of increased adjusted operating profit offset by a higher effective tax rate of 22.6% (2020: 20.7%).

Our FY21 invested capital was lower than 2020, benefiting from the disposal of c. £1.0 billion of assets held for sale from the Premium Cigar Division and a c. £1.5 billion reduction in intangible assets due to a combination of the amortisation of historic acquisitions and beneficial foreign exchange movements. This was partly offset by an increase in working capital.

£m	2021	2020*	2019
Reported Operating Profit	3,146	2,731	
Adjusting Items (see note 6)	427	796	
Adjusted Operating Profit	3,573	3,527	
Implied Tax (at adjusted effective tax rate)	(807)	(730)	
Net Adjusted Operating Profit after tax	2,766	2,797	
Working capital	(2,523)	(3,467)	(2,461)
Intangible assets	16,674	18,160	18,596
Property, plant & equipment	1,723	1,899	1,979
Assets/(Liabilities) held for disposal	(3)	1,024	1,111
Invested Capital	15,871	17,616	19,225
Average Annual Invested Capital	16,744	18,421	
Average Annual ROIC	16.5%	15.2%	

* 2020 calculated on the same basis as 2021.

ADJUSTED NET DEBT / EBITDA

Adjusted net debt/EBITDA reduced to 2.2x in 2021 from 2.7x in 2020. This was driven by a reduction in net debt from our cash flow generation and proceeds from the Premium Cigar Division disposal. The Group also benefited from foreign exchange movements on our net debt position through the strengthening of sterling against the euro and US dollar. This lowered the Group's adjusted net debt based on the year-end balance sheet FX rates when compared to the prior year.

We remain committed to delivering leverage to the lower end of 2.0x to 2.5x.

Reported net debt reduced by £1,768 million to £9,373 million (2020: £11,141 million). Excluding accrued interest, lease liabilities and the fair value of derivative financial instruments providing commercial hedges of interest risk, Group adjusted net debt was £8,615 million (2020: £10,299 million).

NET DEBT / EBITDA

21	2.2x
20	2.7x
19	2.9x
18	2.9x

£ million	2021	2020
Reported net debt	(9,373)	(11,141)
Accrued interest	140	156
Lease liabilities	251	299
Fair value of interest rate derivatives	367	387
Adjusted net debt	(8,615)	(10,299)

RECONCILIATION BETWEEN REPORTED AND ADJUSTED PERFORMANCE MEASURES

£ million unless otherwise indicated	Operating profit		Net finance costs		Earnings per share (pence)	
	2021	2020	2021	2020	2021	2020
Reported	3,146	2,731	81	(610)	299.9	158.3
Acquisition and disposal costs	17	26	-	-	1.8	2.8
Amortisation & impairment of acquired intangibles	450	523	-	-	44.3	49.2
Excise tax provision	(1)	(20)	-	-	(0.1)	(1.7)
Fair value adjustment of loan receivable	(15)	62	-	-	(1.6)	6.6
Profit on disposal of subsidiaries	(281)	-	-	-	(29.7)	-
Restructuring costs	257	205	-	-	19.6	18.4
Fair value and exchange movements on derivative financial instruments	-	-	(496)	176	(60.7)	25.3
Post-employment benefits net financing costs	-	-	(2)	5	(0.3)	0.4
Tax on disposal of Premium Cigar Division	-	-	-	-	(1.2)	2.0
Previously unrecognised tax credits	-	-	-	-	(25.3)	(7.1)
Uncertain tax positions	-	-	-	-	-	8.2
Tax on unrecognised losses	-	-	-	-	5.0	(4.3)
Adjustments above attributable to non-controlling interests	-	-	-	-	(4.6)	(3.7)
Adjusted	3,573	3,527	(417)	(429)	247.1	254.4
Premium Cigar Divestment impact	(3)	(31)	-	-	(0.6)	(7.2)
Adjusted Organic	3,570	3,496	(417)	(429)	246.5	247.2

Adjusting items

In the 2020 Annual Report and Accounts we committed to reviewing our treatment of restructuring costs as an adjusted measure by the end of 2020 in line with the completion of the Cost Optimisation Programmes, which were due to conclude that year. However, as previously announced, the COVID-19 pandemic meant some of these programmes' projects were delayed into 2021, therefore we deferred the review of the treatment of restructuring costs as an adjusted item until the end of this year.

In January, we announced the outcome of our initial strategic review, including an associated and specific time-bound restructuring programme to deliver new ways of working and efficiencies, which we refer to as the 2021 Strategic Review Programme. This resulted in one-off costs to reshape the business to support delivery of the new strategy. The programme excludes any costs associated with factory footprint rationalisation. The restructuring costs for the 2021 Strategic Review Programme will be treated as an adjusting item in 2021 and 2022, by which time the activities are

expected to have been actioned. No further costs outside of approved restructuring programmes will be charged to restructuring in 2022.

A reconciliation of the Group's adjusted to reported operating profit is shown above.

The profit on disposal of £281 million relates to the profit arising on the divestment of our Premium Cigar business that was recognised at half year 2021.

As part of the strategic review, a charge of £118 million was made in relation to the impairment of NGP intangible assets. Of this, £45 million was recognised as amortisation & impairment of acquired intangibles, these having previously been acquired as part of the Nerudia acquisition. The further amount of £73 million relates to internally generated intangibles and was recognised as restructuring costs.

The Auxly loan receivable was revalued as at 30 September 2021, with a £15 million gain recorded due to a positive credit risk reassessment.

Adjusting items also includes restructuring costs of £257 million, with further details available in the restructuring section below.

Following the announcement of the completion of the Premium Cigar Division divestment in September 2020, proceeds of €1,041 million were received as expected in FY21, with a further €88 million received in October 2021.

A further €69 million is expected to be received in 2022 in relation to the transfer of the La Romana factory in the Dominican Republic.

PERFORMANCE GROUP FINANCIAL REVIEW – CONTINUED

The 2021 charges in relation to these restructuring programmes are shown below.

£m	2021	
	Income Statement	Cash
COP I	7	12
COP II	16	41
2021 Strategic Review Programme	226	48
Other	8	11
Total	257	112

An overview of the three programmes' cumulative charges, cash spend and annualised savings is shown below.

Restructuring charge & cash spend

£m	Income Statement Charges		Cash Costs		Savings
	Cumulative to date	Anticipated Total	Cumulative to date	Anticipated Total	Annualised Savings
COP I (2013)	945	945	571	634	305
COP II (2018)	848	848	548	650	320
2021 Strategic Review Programme	226	375-425	48	275	100-150

Restructuring

There are three restructuring programmes reflected in our 2021 results.

Cost Optimisation I Programme (COP I) announced in 2013 is now complete with small residual charges around the factory footprint activity.

Cost Optimisation Programme II (COP II), announced in 2018, is also now largely complete but did see a small carry over from activities scheduled for 2020 that were delayed due to the COVID-19 pandemic.

During the course of 2021, the Group announced a third programme as an output from the strategic review. This restructuring programme aims to reorganise and simplify the business, unlocking efficiency savings to enable increased investment in our core capabilities such as sales and marketing to support the five-year strategic plan. The majority of activity under this programme is expected in 2022 and will be treated as an adjusting item.

Since the strategy announcement, we have been working on detailed plans across a number of different initiatives. Following our detailed work we expect cash costs to be around £275 million, that will extend into 2023 and beyond with the associated restructuring costs expected to be in the range of £375 – £425 million.

The £257 million restructuring charge in 2021 comprised £226 million for the 2021 Strategic Review Programme, £23 million for COP I and II and £8 million of other costs that mainly related to Logista.

Finance costs

Adjusted net finance costs were lower at £417 million (2020: £429 million), reflecting lower adjusted net debt balances during the year. Reported net finance income was £81 million (2020: costs of £610 million), incorporating the impact of net fair value and exchange gains on financial instruments of £496 million (2020: losses of £176 million) and post-employment benefits net financing income of £2 million (2020: costs of £5 million). The gains on financial instruments primarily stem from foreign exchange accounting gains of £445 million as the value of euro financial instruments increased after sterling strengthened 6.0 per cent against the euro during the year.

Our all-in cost of debt increased to 4.0 per cent (2020: 3.4 per cent) as lower cost debt instruments matured in the year.

Our interest cover increased to 9.2 times (2020: 8.9 times) reflecting the lower adjusted finance costs.

Taxation

Our adjusted effective tax rate is 22.6 per cent (2020: 20.7 per cent) and the reported effective tax rate is 10.2 per cent (2020: 28.1 per cent). The increase in the adjusted effective tax rate was due to a less favourable profit mix and remeasurement of UK deferred tax balances. The adjusted tax rate is higher than the reported rate due to recognition of tax credits arising on an internal reorganisation of the Group's Spanish business and limited tax arising on both foreign exchange gains that arise on consolidation and on the disposal gain on the Premium Cigar Division disposal.

During the year a payment of £101 million was made to HMRC in respect of an on-going EU State Aid enquiry. A recoverable of the same value has also been recorded, as based on advice, we believe the Group has not received any State Aid. Further details are provided in Note 8.

We expect our adjusted effective tax rate for the year ended 30 September 2022 to be around 24 per cent. The increase in the rate in 2022 is due to legislative changes and certain historic tax losses being fully utilised in 2021.

The effective tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets such as the USA and lower rates in other markets such as the UK.

The rate is also sensitive to future legislative changes affecting international businesses such as changes arising from the OECD's (Organisation for Economic Co-operation and Development) Base Erosion and Profits Shifting (BEPS) work. Whilst we seek to mitigate the impact of these changes, we anticipate there will be further upward pressure on the adjusted and reported tax rate in the medium term.

Our Group Tax Strategy is publicly available and can be found in the governance section of our corporate website.

Exchange rates

Foreign exchange had an adverse impact on Group adjusted operating profit and earnings per share at average exchange rates (2.7 per cent and 3.1 per cent, respectively) as sterling strengthened against the US dollar (7.3 per cent). Other major currencies remained broadly flat compared to the prior year.

Dividend payments

The Group paid two interim dividends of 21.06 pence per share in June and September 2021.

The Board has approved a further interim dividend of 48.48 pence per share and will propose a final dividend of 48.48 pence per share, bringing the total dividend for the year to 139.08 pence.

The third interim dividend will be paid on 31 December 2021 to shareholders registered on 26 November 2021. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2022 to shareholders registered on 18 February 2022.

In the year there were £1,305 million of shareholder dividend payments (2020: £1,753 million). The 25 per cent reduction represents the FY21 impact of the one-third rebasing of the dividend announced in May 2020 as part of the revised capital allocation policy to accelerate debt reduction.

Funding/Liquidity

During the year we repaid three bonds totalling £2.3 billion equivalent including the early repayment of a bond with a maturity date of July 2022. This was repaid from excess cash, which has the benefit of reducing gross debt as well as counterparty exposures. One bond of €1 billion was issued in the year with a maturity date in 2033. The denomination of our closing adjusted net debt was split approximately 77 per cent euro and 23 per cent US dollar. As at 30 September 2021, the Group had committed financing in place of around £12.7 billion, which comprised 24 per cent bank facilities and 76 per cent raised from capital markets. During the year the maturity date of our existing revolving credit facility of €3.5 billion was extended to September 2024 and bilateral facilities totalling €1.7 billion were cancelled.

The Group remains fully compliant with all our banking covenants and remains committed to retaining our investment grade ratings.



LUKAS PARAVICINI
CHIEF FINANCIAL OFFICER

MANAGING RISK

The principal risks faced by the Group and our risk management approach are described in the following pages.

Risks represent an articulation of the variability of outcomes that we manage in the achievement of the Group's strategy. We define a risk as anything that could disrupt the achievement of the Group's strategy and objectives.

In the development of the Group's strategy, the Board and management have completed a review of the risk landscape (current and emerging) and related profiling, with risk mitigations and impacts assessed in the context of strategic deliverables.

Many of these risks are external and cannot be fully mitigated, and whilst the Group continues to monitor its risk landscape there can be no guarantee that additional risks will not arise, or that other known risks not mentioned increase in materiality.

The COVID-19 pandemic has highlighted, above any other recent event, the value of effective and proactive approaches to the identification and management of risks.

The unprecedented nature of this event, its duration, and the short-term flexibility its mitigation has required, have placed great reliance not only on the Group's existing approaches but also on its ability to respond to new challenges and identify and manage the inherent risks to achieve the Group's strategic aims.

RISK APPETITE

The Board is responsible for setting the Group's risk appetite and has completed its annual exercise to ensure this is aligned to, and supports, the new Group strategy.

The Board risk appetite forms the basis of the Group's risk management approach. It supports the achievement of objectives and the Board's wider responsibility for risk management through clear communication of the expected outcomes of key controls and related monitoring.

RISK MANAGEMENT AND FRAMEWORK

The framework is designed to best ensure accountability for the identification, assessment and mitigation of risks throughout the business, supported by appropriate capabilities.

During the year, the Group strengthened its risk management framework with the introduction of a Group Risk Committee, chaired by the CEO. This further formalises and embeds accountability throughout the business and ensures appropriate focus on risk management through a clear tone from the top.

The successful implementation of the risk management approach is reliant upon the effectiveness of the control frameworks in place to both manage risks and seize opportunities that arise. In designing an approach that enables the business to achieve its strategic objectives in alignment with the Board's risk appetite, the Company's approach to governance, risk management and internal control has been aligned to the "three lines model".

RISK LANDSCAPE

The Group operates in highly competitive multinational markets and so faces general commercial risks associated with a large FMCG business.

We constantly assess and evaluate the risks posed by the changing environments in which we operate, whether geo-political, socio-economic or technological. The consideration of the potential impacts and most likely causes ensures a timely, measured and appropriate response.

ASSESSMENT AND EVALUATION OF RISKS

The assessment of risks is aligned with our business planning cycle and strategic objectives, and focuses not only on the identification and assessment of risks, but also, and most importantly, on the effectiveness of the actions in place to mitigate these risks in line with risk appetite.

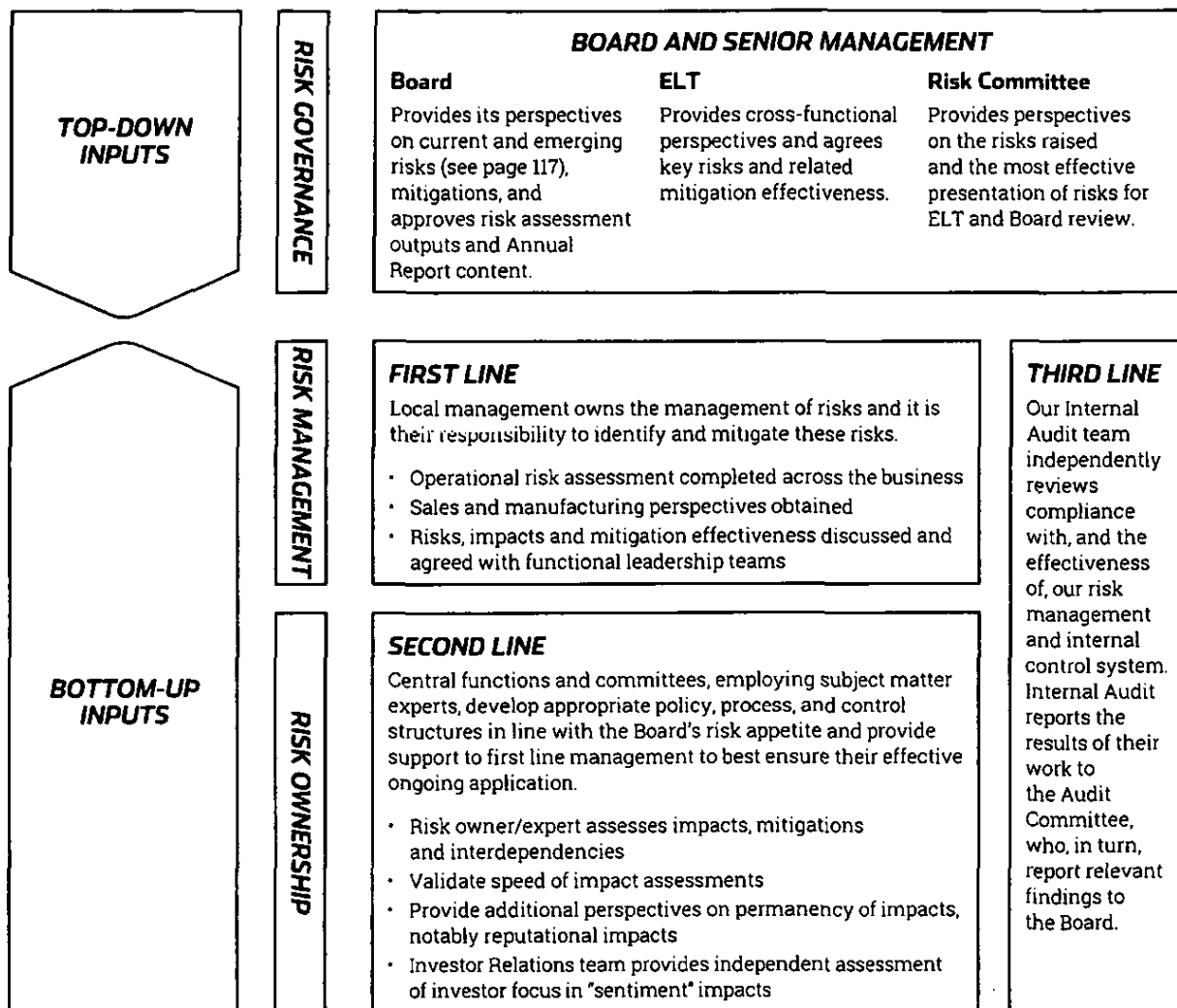
This additional focus on the quality of mitigating actions increases accountability for the design of control frameworks by risk owners, and operational compliance with these Group requirements. Through this evaluation of mitigation effectiveness, we are able to establish a more effective prioritisation of additional actions and resource allocation.

In completing these assessments we adopt a dynamic approach which facilitates and collates views from functional risk owners and a broad spectrum of other relevant stakeholders, providing cross-functional, end-to-end insights from a wider collection of second line experts.

This approach obtains a richer and more balanced perspective on current and emerging risks, at operational and Board level, with greater insight on the effectiveness of mitigation design, notably where cross-functional dependencies exist. This is of value to the Group given the scale of its multinational, multi-cultural footprint.

The emergence of risks is considered on an ongoing basis across the business, with a general three-year horizon (though longer where applicable, e.g. climate risk). This includes consideration of changes in the cause of existing risks (e.g. specific proposed regulatory change) to ensure the effectiveness of current and future mitigations are evaluated. Key areas have been presented to the Board in the year, including cyber, ESG (including climate), and regulatory change, as well as risks as part of the formulation of the Group strategy, and risk reporting processes.

High-impact risks identified in functional assessments are consolidated for review by senior management to ensure an effective "top-down" input from both the ELT and the Board. This provides both operational and strategic perspectives in the assessment of the risks we face as a business, and ensures consideration of these risks in relation to the Group strategy.



In the year the Group has made changes in the reporting of its key (principal) risks. This approach reflects our simplified Operating Model and was further supported by Board input and discussion. The risks reported remain materially consistent. In line with the change in Group strategy, we have introduced a more transparent and consistent understanding and reporting of the risks at all levels of the business, further improving our risk management culture. In achieving this we have evolved the categorisation of risks within our risk register to more tangibly articulate the risks, as well as the underlying causes, impact, and mitigating actions.

In line with the viability statement and our business planning processes, we consider the impact of risks to achieving both the 12-month business plan and the longer three-year viability horizon to ensure appropriate actions can be taken in the short term to facilitate the appropriate mitigation of current and future risk impacts.

The mitigation and management of identified risks is vital to the success

of the Group. The Group's risk management and internal control framework and related reporting are further discussed in the Audit Committee Report on page 111.

RISK MANAGEMENT OVERSIGHT AND SUPPORT

Risks are assigned to a Centre of Expertise (CoE), predominantly second line functions, to ensure appropriate risk management approaches are defined, and to provide oversight and support to operational management in effectively implementing requirements across our global footprint.

Our second line plays an active role in the risk management process in a "player/coach" relationship with the first line. Depending on the nature and size of the risk in question, this relationship may take either a directive form, by setting policies and standards, or a more consultative form to provide guidance and subject matter expertise.

Operational management is held accountable for the management of those risks applicable to it and for

ensuring compliance with our Group policies and standards.

Our Group Control Matrix (GCM) consolidates and communicates the expected minimum controls described in Group policies and standards that are required to be performed across the business. The operating effectiveness of these GCM controls is assessed on a regular basis by management, as well as through Internal Audit activities.

Additionally, operational management at Group and local level is required to certify its compliance with the Code of Conduct and the Group's policies and standards at both the half year and full year.





Results of risk assessments and internal control operating effectiveness assessments are shared with relevant second line CoEs for expert insights and to help enhance applicable internal control, as well as the guidance they provide to the business. Additionally, the information is provided to Internal Audit for reference during both audit testing and development of audit plans.

PRINCIPAL RISKS

In the following section we highlight the principal risks we face and identify the mitigations that we have in place to manage them. Not all of these principal risks are within our direct control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment. In order to assist the reader we include an illustration of the primary impact each risk might have on relevant strategy elements and the change in profile of the risk compared to the previous year. All risks are reported on a mitigated basis.

In the year we have made changes in the presentation of our principal risks. We have added Cyber and ESG as principal risks, which were previously considered within other risks, and no longer include Financial Management or Financial Reporting due to a decline in their relative net impact.

The risks are reported at a consolidated Board level with key underlying risks identified.

Principal risk	Change in year
<p>FAILURE TO MANAGE THE IMPACTS OF PRODUCT REGULATORY CHANGE</p> <p>The risk that regulatory change aimed at further de-normalising the consumption of tobacco and nicotine products adversely impacts the Group's products, markets, manufacturing processes, customers, and/or consumers.</p> <div> <div>Risk profile </div> <div> Strategic impact  Drive value from our broader market portfolio </div> </div>	<ul style="list-style-type: none"> Compliance with the implementation of an EU menthol ban impacted European markets Proposed regulatory change in US and Australia impacting the use of menthol and other characterising flavours. US Federal ban is most likely to take longer than the Group's three-year risk horizon. However, State/County/City legislation could be implemented in advance of this Roll-out of Track and Trace requirements in product supply chain has commenced across Africa and the Middle East
<p>FAILURE TO DEVELOP COMMERCIALY SUSTAINABLE NGP CATEGORIES</p> <p>Failure to develop a portfolio of commercially sustainable, science based, reduced risk products, that meet consumer needs, could impact the Group's ability to seize market opportunities and deliver its ESG agenda.</p> <div> <div>Risk profile </div> <div> Strategic impact  Build a targeted NGP business </div> </div>	<ul style="list-style-type: none"> Strategy development identified further opportunity within heated tobacco, increasing focus on development of portfolio and product offering Recruitment of a Chief Consumer Officer and setting up of the Global Consumer Office US PMTA submission for EVP products subject to ongoing approval process Specific NGP excise structures starting to be implemented across markets, impacting the excise differential between combustible and NGP products Improved customer engagement strategy implemented, providing higher quality insights Continued competitor activity in the NGP market with increasing share of wider nicotine market through product development and marketing initiatives

CLIMATE CHANGE





We recognise the importance of disclosing climate-related risks and opportunities. We have reported on our approach to managing and mitigating climate related risks for a number of years, both within our Sustainability Reporting and CDP disclosures.

Whilst we have assessed both the physical (climatic) and transitional (technological) risks that may impact our business, we do not focus on climate change as a principal risk in itself. Instead we find greater value in ensuring that the risks and opportunities are assessed by each risk owner. With the support of subject matter experts, risk owners review the potential cause and likelihood of the risk materialising. For example, how extreme weather events or increased prices may impact on the supply of raw materials.

By ensuring the assessment of the risks and opportunities on an enterprise-wide basis we have created a framework which operationalises the mitigation of climate risk and creates accountability across the organisation. Further information on our ESG approach can be found on page 54.

Impact	Mitigation	Opportunity
<ul style="list-style-type: none"> Product regulatory change can restrict product specification (e.g., menthol ban), consumer interaction, and product supply, and place restrictions on consumers' ability to enjoy the product, potentially impacting sales volumes and market size Compliance with increasingly complex regulatory requirements increases the risk of both additional cost to the Group and the risk of non-compliance, which could result in investigation, regulatory censure, financial penalty and reputational damage Where interpretation of regulation is required, judgements taken can lead to dispute or investigation by regulators and result in possible related financial costs or reputational damage even where no fault is proven 	<ul style="list-style-type: none"> We engage with authorities to provide informed input and evidence of the unintended consequences of disproportionate changes in product regulation, supported by our Regulatory and Scientific affairs teams Project teams are in place to manage the impacts of regulatory change, ensuring required compliance is achieved and strategic opportunities identified Group policies, guidance and processes are aligned to changes in legislation and requirements Legal action can be taken to defend against or prevent regulatory change where this impacts the Group's brands or local legal freedoms 	<ul style="list-style-type: none"> While stringent regulation provides a burden on all firms, it provides the least burden on businesses that operate from an existing high baseline of compliance and responsibility Regulation can be of benefit to consumers and to responsible market players through the removal of less responsible companies' ability to operate freely within the market place Global regulators are increasingly moving towards a policy of tobacco harm reduction. Such policies accept the reduced risk that non-combustible nicotine products offer adult smokers in comparison to cigarettes and other traditional, combustible products
<ul style="list-style-type: none"> Failure to accurately predict or identify current and emerging consumer trends could result in lost opportunities, and lower volumes should our products have reduced relevance to consumers Failure to align NGP portfolio to consumer needs and expectations results in failure to achieve our NGP ambition Failure to develop NGP categories could impact achievement of key ESG priorities 	<ul style="list-style-type: none"> Dynamic consumer and market analysis to feed product development and go-to market model Development of consumer-centric products bringing alive the Group's agile "fast-follower" strategy Pilot launches of Pulze heated tobacco product commenced Creation of consolidated NGP category management approach enabling holistic view of opportunities and informed investment strategy 	<ul style="list-style-type: none"> Our improved ability to meet consumer needs and robust consumer validation are key drivers of commercial success The Group's experience in combustible and NGP provides it with a strong base to meet the needs of the wider changing nicotine market dynamic

PERFORMANCE PRINCIPAL RISKS AND UNCERTAINTIES – CONTINUED

Principal risk	Change in year
<p>INABILITY TO DEVELOP, EXECUTE AND COMMUNICATE AN EFFECTIVE ESG STRATEGY IN LINE WITH EXPECTATIONS OF RELEVANT STAKEHOLDERS</p> <p>Failure to align the development, execution and communication of the Group's ESG strategy to external expectations. The pace of change in external requirements and expectations is significant, with greater focus on integrity of reporting, and comparison cross-industry and between sector peers.</p>	<ul style="list-style-type: none"> Increased focus on ESG related matters from investors and external stakeholders Increased reporting requirements exist, notably for climate and environmental-related risks, with the Group committed to actions to reduce its impact on the environment (e.g., TCFD) As with all multinationals the Group manages increasing climatic impacts across its global footprint Strategy to support investment in the NGP business to offer adult smokers potentially reduced risk products has been communicated and included within the Group's ESG agenda Recruitment of additional specialist capabilities including experienced global ESG lead
<div> <div>Risk profile </div> <div>Strategic impact </div> <div>Performance-based culture and capabilities</div> </div>	
<p>PRICING, EXCISE OR OTHER PRODUCT TAX OUTCOMES NOT IN LINE WITH BUSINESS PLAN ASSUMPTIONS OR EXPECTATIONS</p> <p>Failure to identify or manage increases, or proposed increases, in excise or other product-related taxes, or changes in tax structures, could impact achievement of objectives.</p>	<ul style="list-style-type: none"> Potential for Federal excise increase in the US Development of EU excise directive Tracking of consumer preferences identified downtrading across priority markets as consumers exhibit increased price consciousness
<div> <div>Risk profile </div> <div>Strategic impact </div> <div>Drive value from our broader market portfolio</div> </div>	

Impact	Mitigation	Opportunity
<ul style="list-style-type: none"> • Should the Group fail to meet expectations, or to ensure at least parity with industry peers, this may impact its reputation as a sustainable business and adversely affect stakeholder sentiment • Failure to comply with key ESG-related regulation, including environmental and human rights legislation would result in a material impact to the Group, including, but not limited to, financial penalties • Reputational damage may result from allegations, even where no wrongdoing has occurred • Employee engagement may be adversely affected as a result of any perception that the Group is acting in an inappropriate manner 	<ul style="list-style-type: none"> • ESG strategy, agenda and communications, including ongoing development and materiality assessment, aligned to strategic goals and targets • ESG Committee with executive representation in place to provide oversight • Investor and stakeholder presentations ensure alignment with expectations and transparency on progress of Group actions • TCFD disclosures and related actions facilitate robust reporting and control frameworks (TCFD overview page 63) • Responsibility and accountability for identification of ESG-related risks understood by the Company and continue to be embedded across the business • Policy, training, guidance and effective governance provided by both internal and external subject matter experts 	<ul style="list-style-type: none"> • Positive ESG strategies and communications can increase the attractiveness of the organisation to new joiners, and increase the engagement of existing employees • Sustainability is an increasing factor in customer and consumer choices across FMCG sectors • Sustainability initiatives can reduce long-term financial costs through greater efficiency and reduced waste • Investor and wider stakeholder sentiment increase toward companies with successful and proven ESG strategies and initiatives
<ul style="list-style-type: none"> • Pricing pressures may result from increased taxation as consumer affordability may be impacted. This could result in downtrading to lower price products/categories, reduced consumption, cessation of smoking, or increase the attractiveness of illicit product, impacting sales volumes, revenues, profitability and market size • In markets where consumers are increasingly price conscious the ability to achieve planned price increases may be impacted, resulting in reduced profitability as the Group protects market share • Counterfeit and illicit trade thrive in high-excite environments, reducing the size of the legitimate tobacco market, increasing risks to consumers from non-compliant product, and financing organised crime • Inferior, unregulated counterfeit product could result in damage to our brands 	<ul style="list-style-type: none"> • Subject matter experts assess global excise risks, and model price elasticity to best ensure the business plan and strategy are developed and aligned to consumer insights • We engage with authorities to provide informed input and evidence about the unintended consequences of disproportionate changes in product taxation, supported by our Regulatory and Anti-Illicit Trade teams • Robust internal policy and procedures exist to best ensure compliance within our own supply chain and maintain strong standards and controls for our business and our first-line customers to prevent diversion of our products • We work alongside and partner with governments and law enforcement agencies around the world to prevent the illicit supply of tobacco products • Our Revenue Growth Management function is responsible for the identification and management of strategic commercial opportunities arising from excise change 	<ul style="list-style-type: none"> • The development of the Group strategy includes analysis of planned and potential changes in product taxation to best identify and ensure investment opportunities across its range of products • The Group product portfolio is aligned to potential impacts of change in consumer behaviour, with products at various price points • Tailored product portfolio offerings at a local level, within and across categories, allow for any relative commercial advantage from excise mechanisms to be realised

PERFORMANCE PRINCIPAL RISKS AND UNCERTAINTIES – CONTINUED

Principal risk	Change in year
<p>PRODUCT PORTFOLIO AND/OR INTERACTION APPROACH NOT ALIGNED TO CONSUMER PREFERENCES</p> <p>Product portfolio not aligned to consumer needs or demands, and/or product development not sufficiently agile to respond to changes in preferences or market structure and competitor offerings. Brand strength is not strong enough to attract or retain customers.</p>	<ul style="list-style-type: none"> • Emergence of new low-price tiers across many markets • Continuation of downtrading trend continues as consumers become increasingly value driven • Creation of Global Consumer Office in line with consumer focus strategy
<div> <div>Risk profile →</div> <div>Strategic impact</div> <div>Consumer at the centre of the business</div> </div>	
<p>FAILURE TO ENSURE EXPECTED BENEFITS OF STRATEGIC TRANSFORMATION PROGRAMME</p> <p>Failure to deliver effective organisational change which ensures a sustainable operating model, aligned to delivery of the Group strategy. Failure to realise expected benefits of change initiatives or unexpected outcomes, resulting in short-term inefficiencies and pressure to achieve objectives.</p>	<ul style="list-style-type: none"> • Group-wide organisational change initiatives have commenced. The scale of this change has inherent risks associated with programmes of this nature • Change management structures and governance implemented at both Group and local level to best support change initiatives
<div> <div>Risk profile ↑</div> <div>Strategic impact</div> <div>Simplified and efficient operations</div> </div>	
<p>MAJOR INCIDENT RESULTING FROM CYBER OR SIMILAR TECHNOLOGY RISK</p> <p>Risk of cyber-attack or other technology incident results in a major system outage or denial of service. The criticality of Group systems, notably Track and Trace related, has significantly increased with key reliance on system availability both internally and through the supply chain.</p>	<ul style="list-style-type: none"> • External environment highlights increasing risk of corporate cyber-attacks including use of "insider" resource to carry out cyber-attacks, notably ransomware • Increasing risk to all businesses of attack through extended supply chain where one company is breached and others to which it has connections are then also impacted
<div> <div>Risk profile ↑</div> <div>Strategic impact</div> <div>Simplified and efficient operations</div> </div>	

Impact	Mitigation	Opportunity
<ul style="list-style-type: none"> • If the Group's product portfolio fails to meet consumer preferences, then reduced demand will result in lower sales volumes and reduced brand equity • Failure to ensure effective implementation of market or retail initiatives could result in lost opportunities and wasted investments • Failure to act upon consumer insights prevents opportunities from being seized and impacts growth • Failure to identify IP constraints in the innovation of new products could impact development and/or launch limiting the ability to respond to competitor offerings 	<ul style="list-style-type: none"> • Chief Consumer Officer and Global Consumer Office leadership roles recruited in year to strengthen consumer focus • Brand initiatives and opportunities identified and developments completed • Consumer panel approach updated to provide more effective feedback processes • Brand monitoring, including equity tracking updated • Innovation processes are designed to develop consumer products based upon robust analysis, testing and scientific support • <i>IP risks are managed by subject matter experts within the Group</i> • The alignment of innovation and development plans with the Group's current NGP ambition 	<ul style="list-style-type: none"> • The development of products and/or relevant route to market and pricing strategies that meet and drive consumer demand • Speed and quality of innovation enables the drumbeat of consumer activations that ensure both brand relevance and continued brand loyalty • Management of "local hero" brands in market offers ability to realise local opportunities
<ul style="list-style-type: none"> • Failure to meet project timelines or key milestones can result in increased implementation cost and opportunity costs • Budgeted savings/returns may not be achieved in key strategic projects • Non-achievement of strategic objectives could result in loss of investor and market confidence • Reporting of incorrect or unsubstantiated benefits realisation • Failure to consider and effectively manage localised impacts of strategic change could impact short-term operational performance 	<ul style="list-style-type: none"> • Robust business case approval process in place with wide stakeholder input • Appropriate steering committee structure and reporting in place, with cross-functional involvement • Project benefits realisation verified at key project milestones • Resource requirements constantly reviewed, with specialist project management resource employed • Local project management teams in place to support change programme 	<ul style="list-style-type: none"> • Successful delivery of key organisational change projects improves the efficiency and effectiveness of the Group, better enabling it to achieve its strategic goals • Identification of opportunities in development of strategy and execution of "must win battles" in priority markets
<ul style="list-style-type: none"> • Loss of critical systems could impact product supply to markets or retailers • Failure to protect personal private data could result in regulatory breach and related censure, financial penalty and reputational damage • Cyber breach could result in loss of sensitive corporate data, impacting achievement of strategy, reputational damage, significant cost to the Group or lost competitive advantage 	<ul style="list-style-type: none"> • Cyber risk assessment completed and actions implemented to further protect business • Vulnerability scanning in place to ensure ongoing threat protection • External penetration testing completed on an ongoing basis • Workstation security and cloud services implemented • Crisis management scenario planning and response activities in place and tested • Additional specialist capabilities recruited internally to continually improve approach 	

PERFORMANCE PRINCIPAL RISKS AND UNCERTAINTIES - CONTINUED


Principal risk

Change in year

FAILURE TO APPROPRIATELY MANAGE LITIGATION AND INVESTIGATIONS RESULTS IN ADVERSE JUDGMENTS AND/OR RELATED COSTS

Similar to other corporates, litigation and other claims are pending against the Group. The interpretation of law (including taxation) and the related judgements taken in relation to these laws can lead to dispute or investigation and possible financial costs or reputational damage.



- Increase in litigation activity related to the aggressive marketing previously employed by competitors in the US EVP market could result in precedents which increase claims made against responsible manufacturers. Even where these claims do not result in prosecution there may be costs associated with defending such matters

Risk profile 	Strategic impact  Simplified and efficient operations
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MANAGEMENT OF LIQUIDITY AND FINANCING REQUIREMENTS

Failure to manage liquidity and financing requirements resulting in going concern or viability concerns.

- Successful long-term funding initiatives completed in-year
- Increased focus of funders on ESG-related matters, and disclosures, notably in relation to sector
- Further deleveraging of the business has occurred during the year, and continues to be a key area of focus

Risk profile 	Strategic impact  Simplified and efficient operations
---	--

Impact

Mitigation

Opportunity

- Failure to comply with regulations could result in investigation and the enforcement of financial penalties or regulatory censure
- Investigation or allegations of wrongdoing can result in significant management time being required, potentially reducing focus on other operational matters
- If any claim against the Group was to be successful, it might result in a significant liability for damages and could lead to further claims against us
- Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable
- A successful claim against a competitor could result in an increased likelihood of similar claims against the Group
- The reputational damage arising from investigations or allegations of non-compliance could have a greater impact with external stakeholders than the penalties or actions related to the matter itself

- We employ internal and external lawyers specialising in the defence of product liability claims and other litigation. To date, no tobacco litigation claim brought against the Group has been successful *and/or resulted in the recovery of damages or settlement monies*
- Advice is provided to prevent causes of litigation, along with guidance on defence strategies to direct and manage litigation risk and monitor potential claims around the Group
- The Group's Code of Conduct and core behaviours articulate the way we expect our people to act, with compliance certified by management across the business
- The Group's policies and standards mandate that employees must comply with legislation relevant to both a UK listed company and local law
- In the event of an investigation (which may or may not result in actions against us), we co-operate fully with the relevant authority and will continue to do so

- Failure to maintain cash flows could impact the Group's ability to pay down debt, impacting covenants, credit ratings, bank bonds and investor confidence
- Reduced ability to invest in strategic and commercial business initiatives
- A fall in certain of our credit ratings would raise the cost of our existing committed funding and would be likely to raise the cost of future funding, and affect our ability to raise debt
- Failure of a financial counterparty (e.g., when holding cash deposits and/or derivatives) is likely to result in a financial and cash impact

- Funding requirements and near-term debt maturities formally evaluated at least semi-annually and signed-off by the Audit Committee as part of Going Concern and Viability process
- Full review of funding requirements, current maturities and options available to the Group
- Revolver funding implemented, providing the Group with innovative means of managing cash requirements
- Strong focus on cash generation supported by Group guidance and governance processes
- Appropriate authority and accountability in place for investments and capital expenditure, including achievement of required return criteria
- Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with performance and expectations to manage future financing needs and optimise cost and availability
- The Treasury function operates in accordance with the terms of reference and delegated authorities set out by the Board, with independent oversight from the Treasury Committee

- Maintaining an efficient capital structure allows the Group to maintain an efficient cost of capital to support and generate additional returns on investments and capital outlays/expenditure
- The high cash conversion that the Group has delivered/ delivers, provides the Board/ management with cash flexibility and optionality
- Effective communication of ESG strategy and initiatives highlights the Group's sustainability agenda and meets stakeholder expectations
- The Group has investment grade credit ratings from the main credit rating agencies, which supports it in accessing financing in the global debt capital markets


PERFORMANCE PRINCIPAL RISKS AND UNCERTAINTIES - CONTINUED

Principal risk

Change in year

PRODUCT SUPPLY FAILS TO MEET MARKET DEMANDS (STOCK ISSUES IN MARKET)



Failure to ensure timely supply of products demanded by markets which meet quality, regulatory and cost requirements. Availability issues could result in loss of sales and could result from production, planning or logistical issues, or failure to be able to produce/develop formats aligned to consumer needs.

Risk profile		Strategic impact		Simplified and efficient operations
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- In common with other multi-nationals the COVID-19 pandemic has placed significant pressures on the Group's logistics supply chain. These impacts will continue going forward but are anticipated to be of lower potential impact than in the previous 18 months
- Additionally, the pandemic has placed pressure on raw material suppliers which may result in some future cost increases
- Track and Trace regulation continues to roll out across markets, increasing compliance requirements
- Continuing frequency of adverse weather globally due to climate change potentially impacting supply chains

PEOPLE AND ORGANISATION

Inability to attract, retain and develop required capabilities to achieve strategic objectives and/or provide a safe, healthy working environment.

Risk profile		Strategic impact		Performance based culture and capabilities
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- Development of new purpose, vision, and behaviour framework to drive cultural change
- Recruitment and development of a renewed executive and senior leadership in the year, to ensure achievement of strategy
- The development of an equality, diversity and inclusion strategy, senior leadership training and the development of employee resource groups
- The business continues to focus on the welfare of its people across the globe as COVID-19 continues to impact; activities include actions to track in-market changes and the development of specific communication and support tools tailored to the needs of each country

Impact	Mitigation	Opportunity
<ul style="list-style-type: none"> • Loss of manufacturing capacity could impact the Group's ability to meet short-term production demands • Failure to supply markets could result in loss of short-term sales volume, with the additional risk of impacts to loss of consumer loyalty potentially impacting longer-term volumes • Product quality issues could impact customer satisfaction, potentially damaging brand equity and future sales • Failure to achieve expected cost saving initiatives could result in reduced margin and profitability • A lack of availability of raw materials could impact short-term supply to markets • Key ESG-related risks exist in our raw material and component supply chains. Failure to manage these risks appropriately could bring litigation with financial and reputational damage to the Group • Severe weather episodes could impact raw material supply, manufacturing sites and warehousing, potentially affecting or increasing the cost of short-term supply to markets 	<ul style="list-style-type: none"> • Robust demand planning process and supply chain management aligned to changing market environment • Creation of additional safety stocks for non-leaf materials at the beginning of the pandemic and ongoing management of requirements aligned to sales forecast • Production capacity planning includes agreed continuity measures in the event of machine failure or site issue • Leaf and raw material supply processes are in place covering both continuity risks and ESG-related matters including farmer welfare, agronomy, and human rights and child labour issues, including continuous improvement consideration • Ongoing supplier reviews undertaken to best ensure continuity of supply, with additional review and learnings from COVID-19 experience to date incorporated into business processes • The Group is firmly committed to acting in accordance with both legal requirements and the principles of being a responsible manufacturer 	<ul style="list-style-type: none"> • Operations continue to supply quality, compliant products whilst improving agility and scalability to cater for demand shifts and opportunities to contain underlying costs
<ul style="list-style-type: none"> • Organisational culture and mindset fail to facilitate consumer focus and the requirements of a business operating in new and fast changing categories • The Group fails to achieve operational or strategic objectives because of a misalignment of skills and capabilities • Failure to ensure safe working practices, appropriate environment and culture, and the required personal support to ensure the safety and wellbeing of our people and others working with the Group • Loss of life or serious injury/illness to employees or other individuals working with/for Imperial Brands • Financial penalty, censure or prosecution for breach of regulations • Interruption of Group operations (notably manufacturing) resulting from significant incident or failure to comply with regulations 	<ul style="list-style-type: none"> • Group-wide Diversity and Inclusion focus including survey and resultant action plans to ensure that society is fairly represented within our business • Diversity and Inclusion working groups formed to manage cultural and corporate change to support all our people • Capability requirements and gaps evaluated with actions taken both locally and at Group level to address short and medium-term requirements • Health and safety policies, procedures, training and monitoring in place • Employee wellbeing support in place across the business • COVID-19 related safety measures, including employees working from home, social distancing in Group locations, provision of quality PPE protection, employee testing, safe employee transportation, on-site vaccination, and welfare support measures have been put in place 	<ul style="list-style-type: none"> • Increased attractiveness of Imperial as an employer of choice for both current and potential employees through the promotion of a diverse and inclusive culture, opportunities for personal development, and support for individual and team wellbeing • Achievement of Group strategy, and development of multi-category business enhanced by the attraction and retention of requisite capabilities and mindset • Continued promotion of our safety culture facilitates the associated benefits of reduced lost working time and operational effectiveness, and supports Imperial as an employer of choice

LIQUIDITY AND GOING CONCERN STATEMENT

The Group's policy is to ensure that we always have sufficient capital markets funding and committed bank facilities in place to meet foreseeable peak borrowing requirements.

The Directors recognise that the current environment brings uncertainty due to the COVID-19 pandemic; however, over the last 18 months, the Group has effectively managed operations across the world, and has proved it has an established mechanism to operate efficiently despite the uncertainty. The Directors consider that a one-off discrete event with immediate cash outflow is of greater concern to short-term liquidity than any effect from the on-going COVID-19 pandemic.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios that may affect the business. These included scenarios which examined the implications of:

- A one-off discrete event resulting in immediate cash outflow such as unexpected duty and tax payments of c£900m or non-receipt of the Premium Cigar Division deferred consideration of c£60m.
- A rapid and lasting deterioration to the Group's profitability because markets become closed to tobacco products or there are sustained failures to our tobacco manufacturing and supply chains. These assumed a permanent reduction in profitability of 15 per cent from 1 January 2022.
- The additional impact of potential bad debt risks arising from a recession of c£170m.
- The withdrawal of facilities that provide receivables factoring of c£670m.

The scenario planning also considered mitigation actions including reductions to capital expenditure and dividend payments. There are additional actions that were not modelled but could be taken including other cost mitigations such as staff redundancies, retrenchment of

leases, and discussions with lenders about capital structure.

Under the worst-case scenario, where the largest envisaged downside scenarios all take place at the same time, the Group would have sufficient headroom until February 2022. The Group believes this worst-case scenario to be highly unlikely given the relatively small impact on our trading performance and bad debt levels during the Covid-19 pandemic. In addition, the Group has a number of mitigating actions available, as described above, that could be implemented should such a scenario arise.

Based on its review of future cash flows covering the period through to March 2023, and having assessed the principal risks facing the Group, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet their operational needs from the date of this Report through to 31 March 2023 and concludes that it is appropriate to prepare the financial statements on a going concern basis.

VIABILITY STATEMENT

The Board has reviewed the long-term prospects of the Group in order to assess its viability. This review, which is based on the business plan which was completed in July 2021, incorporated the activities and key risks of the Group together with the factors likely to affect the Group's future development, performance, financial position, cash flows, liquidity position and borrowing facilities as described in the 'How we manage risk' section of this report on pages 80 to 91.

In addition, we describe in notes 20 to 21 the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to market, credit and liquidity risk.

Assessment

In order to report on the long-term viability of the Group, the Board reviewed the overall funding capacity and headroom available to withstand

severe events and carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The assessment assumes that any bank debt maturing in the next three years can be re-financed at commercially acceptable terms or via our current standby facility. The Board believes that three years is an appropriate time horizon given the current business portfolio and limited visibility beyond three years. This assessment also included reviewing and understanding both the impact and the mitigation factors in respect of each of those risks. The viability assessment has two parts:

First, the Board considered the period over which they have a reasonable expectation that the Group will continue to operate and meet its liabilities, taking into account current debt facilities and debt headroom; and

Second, they considered the potential impact of severe but plausible scenarios over this period, including:

- Assessing scenarios for each individual principal risk, for example commercial issues and the impact of regulatory challenges; and
- Assessing scenarios that involve more than one principal risk including multi-risk scenarios.

Findings

Viability review period

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to September 2024. This reflects the period used for the Group's business plans and has been selected because, together with the planning process set out above, it gives management and the Board sufficient, realistic visibility on the future in the context of the industry environment.

The Group's annual corporate planning processes include completion of a strategic review, preparation of a three-year business plan and a rolling re-forecast of current year business performance and prospects. The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding, forecast future funding requirements, banking covenants, and other key financial ratios, including those relevant to

maintaining our investment grade ratings. These projections represent the Directors' best estimate of the expected future financial prospects of the business, based on all currently available information.

The use of the strategic plan enables a high level of confidence in assessing viability, even in extreme adverse events, due to a number of mitigating factors such as:

- Flexibility of cash outflow with respect to the ability to manage dividend returns to investors, capital expenditure projects planned to take place within the three-year horizon, plus promotional marketing programmes.
- The Group has mature business relationships and operates globally within well established markets.
- The Group's operations are highly cash generative and the Group has access to the external debt markets to raise further funding.

Risk impact review

For each of our principal risks, plausible risk impact scenarios have been assessed together with a multiple risk scenario. The following table summarises the key scenarios that were considered, both individually and in aggregate:

Risk scenarios modelled	Level of severity reviewed	Link to principal risk
The consequences of adverse operating and commercial pressures, involving volume reduction and/or falls in margin, driven by unforeseen reductions in the size of the legitimate tobacco market or other changes in the level of consumer demand for our products.	<p>The maximum quantifiable impact of all envisaged business risks, including the impact of a loss of market size and share and non-receipt of remaining Premium Cigar Division proceeds.</p> <p>The value of these combined risks totals £1.3 billion over the three-year period under review.</p> <p>A further worst-case scenario has also been considered, modelling 15% reduction on remaining EBITDA after consideration of the isolated business risks. The value of this EBITDA modelled totals £1.6 billion over the three-year period under review.</p>	<ul style="list-style-type: none"> • Failure to manage the impacts of regulatory change. • Failure to develop commercially sustainable NGP categories. • Inability to develop, execute, and communicate an effective ESG strategy in line with expectations of relevant stakeholders. • Pricing, excise or other product tax outcomes not in line with Business Plan assumptions or expectations. • Product portfolio and/or interaction approach not aligned to consumer preferences. • Major incident resulting from cyber or similar technology risk. • Failure to ensure expected benefits of strategic transformation programme. • Management of liquidity and financing requirements (external factors limiting potential access to funds for Tobacco industry). • Product supply fails to meet market demands.
The possible costs associated with legal and other regulatory challenges, including competition enquiries and tax audits.	<p>Failure to successfully defend existing and reasonably foreseeable future legal and regulatory challenges, at the expected financial exposure.</p> <p>The value of these combined risks is c£180 million.</p>	<ul style="list-style-type: none"> • Failure to appropriately manage litigation results in adverse judgments and/or related costs. • Failure to attract or retain required capabilities and talent. • Inability to develop, execute, and communicate an effective ESG strategy in line with expectations of relevant stakeholders.

None of the scenarios reviewed, either individually or in aggregate, would cause Imperial Brands to cease to be viable.

Climate-related risks have been assessed as causes of a number of our underlying risks which are included within the scenario modelling, including, but not limited to, the failure to supply product due to weather-related impacts on individual factories, the cost of complying with environmental legislation, and the impact that climate change has upon the supply of raw materials (notably leaf).

The Group does not consider climate change to be a risk from a viability perspective. The Group holds c12 months of leaf stock; therefore any shortage or incremental cost caused by a natural event would only impact part of the period under review. Any incremental cost would have an EBITDA impact lower than that modelled as part of the scenario testing.

CONCLUSION

On the basis of this robust assessment of the principal risks facing the Group, and on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to September 2024.

A YEAR OF PROGRESS AND CHANGE

Image removed

“

Our primary focus, along with that of people all around the world, was the safety of our people, their families and our communities during the COVID-19 pandemic.

”

DEAR SHAREHOLDER

This Corporate Governance Report details our approach to governance and the responsible way we run our business.

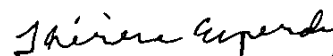
Your Board and Executive Leadership Team have worked extremely productively together throughout the challenges of the last year. During the continued COVID-19 pandemic our primary focus has been the safety of our people and the communities in which we operate. We have also focused on the development and initial implementation of our new strategy, underpinned by a renewed purpose and culture focused on the consumer and ensuring we deliver the products they want. These

developments have been supported by the rigour of our corporate governance standards, the positive Board culture we have created and enhancing the resilience and success of the business for all its stakeholders.

We have continued to enhance the skill set, experience and diversity of the Board to meet these challenges. We welcomed Lukas Paravicini as our new Chief Financial Officer in May; Lukas took on the Chief Financial Officer role at a significant point in Imperial's development and the Board is confident that his considerable operational experience and expertise in driving transformational change will be key in delivering the renewed strategy.

In November 2020 we welcomed Bob Kunze-Concewitz and in January 2021 Alan Johnson to the Board as Independent Non-Executive Directors. We look forward to Ngozi Edozien and Diane de Saint Victor also joining as Independent Non-Executive Directors, in November 2021. Read about our Board members' skills and experience on pages 96, 97 and 105.


Details of the Company's governance framework and how it contributes to the delivery of our strategy are set out in the following sections.



THÉRÈSE ESPERDY
CHAIR

STATEMENT OF COMPLIANCE WITH PROVISIONS AND PRINCIPLES OF THE CODE

The Company has complied with all requirements of the 2018 UK Corporate Governance Code (the Code).

 Further detail regarding how we have complied with the Code is set out below and included in the individual Board Committee reports on pages 111 to 119 and pages 120 to 139.

BOARD LEADERSHIP AND PURPOSE

The Directors of the Company are set out on pages 96 and 97 and the Board skills matrix is on page 105.

Purpose and culture

Our purpose and vision is set out on pages 6 to 9 and a summary of our culture is provided within the People and Culture section on pages 46 to 49.

Long-term value

Our renewed strategy is set out on pages 30 to 35. Principal risks and uncertainties and how these are managed are shown on pages 80 to 93.

Engaging stakeholders

Building and maintaining trust with our stakeholders underpins the success and reputation of Imperial Brands. Our key stakeholders and how we engage with them and understand their views are set out on pages 38 to 41. Our section 172(1) statement, setting out how the Directors have had regard to stakeholders when undertaking their duties can be found on page 42.

Significant votes against a resolution

At the Annual General Meeting held on 3 February 2021, all resolutions were passed. Although Resolution 2, the Directors' Remuneration Report, was carried, a significant proportion of the votes cast were against. We continued to engage with investors during the year and an update is set out within the Remuneration Report on pages 138 and 139.

DIVISION OF RESPONSIBILITIES

Role of Directors

Our Chair and Chief Executive have clearly defined and separate responsibilities divided between the leadership and effectiveness of the Board and the running of the business respectively. Working with the Board, they are responsible to our stakeholders for the successful delivery of our strategy. They communicate regularly between Board meetings to ensure a full understanding of evolving issues and to facilitate swift decision-making. See Division of responsibilities on page 104.

Matters reserved

In order to retain control of key decisions the Board has adopted a schedule of matters on which it must make the final decision. During the year such decisions included Lukas Paravicini's appointment as Chief Financial Officer, the appointments of Alan Johnson, Bob Kunze-Concewitz, Ngozi Edozien and Diane de Saint Victor as Non-Executive Directors, the Group's financial statements, its renewed strategy, its business plan, major capital expenditure, material investments or disposals, capital allocation and returns, and material changes to the Group's principal policies (including treasury and tax).

Directors' independence and significant external commitments

Our processes for managing potential conflicts of interest are set out on page 140 and the Directors' external commitments are set out within their biographies on pages 96 and 97.

COMPOSITION, SUCCESSION, EVALUATION AND DIVERSITY

Our Succession and Nominations Committee Report can be found on pages 108 to 110.

Director appointment and succession planning

The Succession and Nominations Committee has responsibility for ensuring the appropriate balance of skills, experience and knowledge, and oversees succession planning. We set out our Board composition and biographies of its members on pages 96 and 97 and a skills matrix of the Board can be found on page 105.

Board evaluation

The Board, Board Committees and individual Directors undertake an evaluation review annually. A description of the external evaluation carried out in 2021 is provided on pages 141 and 142.

Diversity and inclusion

Details of our Diversity and Inclusion Policy and key measurements are contained in the Our People and Culture section on pages 46 to 49 and in our ESG report on page 57. The Board's oversight of diversity and details of the Board Diversity and Inclusion Policy are provided in Board Statements on page 107.

AUDIT, RISK AND INTERNAL CONTROL

Our Audit Committee Report can be found on pages 111 to 119.

Audit

Details of how the Audit Committee has discharged its responsibilities can be found on pages 111 to 119. The external auditor's report begins on page 148.

Risk and internal control

The Group's principal risks, together with our approach to their management, and our internal control framework are set out on pages 80 to 93.

Other reporting

Our approach to ensure a fair, balanced and understandable report is provided on page 116. Our liquidity and going concern, and viability statements can be found on pages 92 and 93. Our statement of Directors' responsibilities is on page 146.

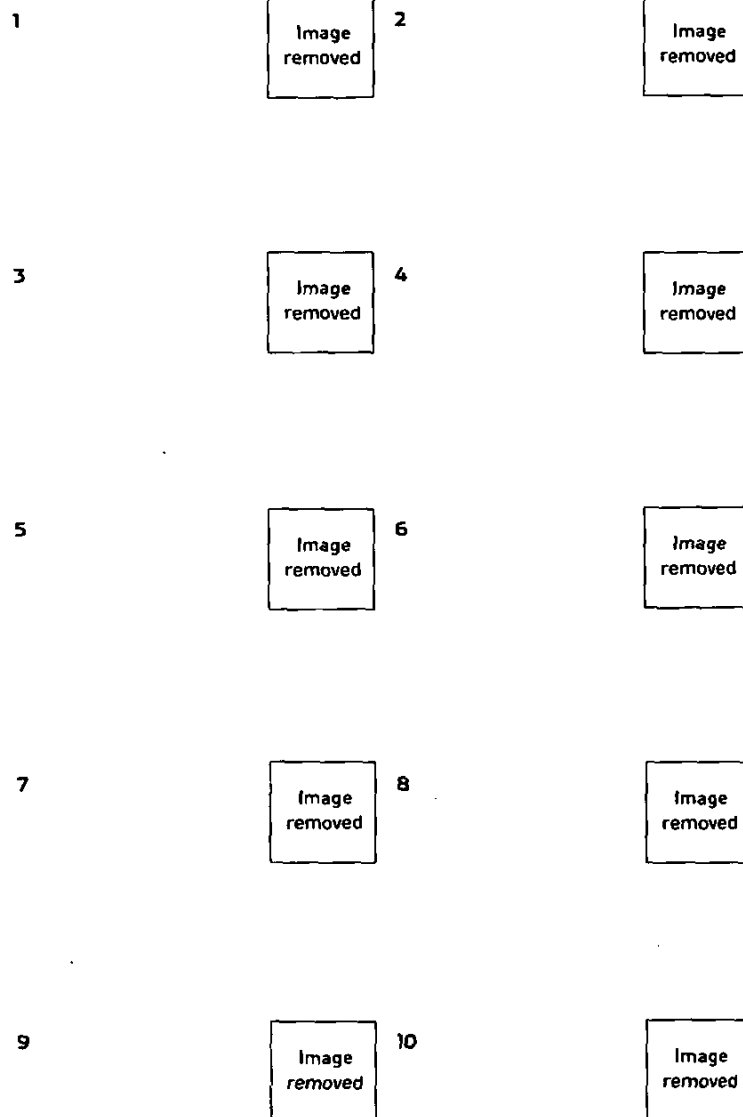
REMUNERATION

Our Remuneration Committee Report can be found on pages 120 to 139.

The current Directors' Remuneration Policy, which in accordance with Code Provision 36 includes a post-employment shareholding requirement encompassing both unvested and vested shares, was approved by shareholders at our AGM in February 2021. Details of how the policy has been applied during 2021 and how the Remuneration Committee has undertaken its duties can be found in the Directors' Remuneration Report.

Provision 38 of the Code states that the pension contribution rates for Executive Directors, or payments in lieu, should be aligned with those available to the workforce. As set out in the Directors' Remuneration Report, the pension entitlement for new Executive Directors has been reduced to be in line with the UK workforce and has been formally included in our Directors' Remuneration Policy. Both Stefan Bornhard and Lukas Paravicini were appointed on this basis. See page 125 for more information.

TAKING DECISIVE ACTION TO STRENGTHEN OUR LEADERSHIP CAPABILITIES



Committee membership

N	Succession and Nominations Committee	R	Remuneration Committee	W	Workforce Engagement Director
A	Audit Committee	C	Committee Chair		

Board and Committee composition as at 30 September 2021

Find out more at www.imperialbrandspc.com/about-us/leadership-team



1. THÉRÈSE ESPERDY CHAIR

Appointment

Appointed Chair in January 2020, having previously served as Senior Independent Director since May 2019. Thérèse joined the Board in July 2016.

Skills and experience

Thérèse has significant international investment banking experience having held a number of roles at JP Morgan including Global Chair of JP Morgan's Financial Institutions Group, Co-Head of Asia-Pacific Corporate & Investment Banking, Global Head of Debt Capital Markets, and Head of US Debt Capital Markets. She began her career at Lehman Brothers and joined Chase Securities in 1997 prior to the firm's merger with JP Morgan in 2000.

External appointments

Non-Executive Director and Chair of the Finance Committee of National Grid Plc¹; Non-Executive Director of Moody's Corporation¹.



6. ROBERT (BOB) KUNZE-CONCEWITZ NON-EXECUTIVE DIRECTOR

Appointment

Appointed Non-Executive Director in November 2020.

Skills and experience

Bob is an experienced marketing professional and has held a number of senior roles at leading FMCG companies. He has been Chief Executive Officer at Campari Group, a major player in the global spirits industry, since May 2007 having joined the business in 2005 as Group Marketing Director. Prior to his time at Campari Group, he held positions of increasing responsibility at Procter & Gamble, including Global Prestige Products Corporate Marketing Director.

External appointments

Chief Executive Officer of Campari Group¹ and a Non-Executive Director of Luigi Lavazza S.p.A.²

1. Public listed company.

2. Private organisation.

2. STEFAN BOMHARD CHIEF EXECUTIVE OFFICER

Appointment

Appointed to the Board as Chief Executive Officer in July 2020.

Skills and experience

Stefan joined Imperial in July 2020 from Inchcape plc, a global distribution and retail leader in the premium and luxury automotive sectors, where he delivered successful transformational change during a five-year tenure as Chief Executive.

Prior to his role at Inchcape, Stefan was President of Bacardi Limited's European region and was also responsible for Bacardi's Global commercial organisation and Global Travel Retail.

Stefan has a PhD in marketing and has accrued significant experience in the consumer and retail sectors during his career. Previous roles have included Chief Commercial Officer of Cadbury plc and Chief Operating Officer of Unilever Food Solutions Europe. This followed senior management and sales and marketing positions at Diageo (Burger King) and Procter & Gamble.

External appointments

Non-Executive Director of Compass Group PLC¹.



7. SIMON LANGELIER NON-EXECUTIVE DIRECTOR

Appointment

Appointed Non-Executive Director in June 2017.

Skills and experience

Simon has significant international experience within the tobacco industry. He held a number of senior commercial positions during a 30-year career with Philip Morris International, including in Latin America, Asia, Western and Eastern Europe, Middle East and Africa. In addition, he was President of their Next Generation Products & Adjacent Businesses. Simon was also Chairman of PharmaCielo Limited, an international medicinal cannabis business, for almost six years.

External appointments

Patron and Honorary Professorial Fellow at Lancaster University, and a member of the Dean's Council of the University's Management School¹.

3. LUKAS PARAVICINI CHIEF FINANCIAL OFFICER

Appointment

Appointed to the Board of Directors on 1 May 2021 and appointed Chief Financial Officer on 19 May 2021.

Skills and experience

Lukas has a proven track record in international consumer goods companies. Beyond his finance credentials, he has considerable operational experience as well as expertise in driving transformational change including in global shared services in large international organisations. Lukas joined Imperial from agricultural commodities and brokerage group ED&F Man Holdings, where he was Chief Financial Officer. He has also held senior positions at Fonterra, a New Zealand and Australia listed co-operative and the world's largest dairy exporter, with sales in 130 countries. He was Chief Financial Officer from 2013-2017 and Chief Operating Officer, Global Consumer and Foodservice Business from 2017-2018. Prior to that, he spent 22 years with Nestlé in various senior finance and general management roles.

External appointments

No external Director appointments.



8. STEVEN STANBROOK NON-EXECUTIVE DIRECTOR

Appointment

Appointed Workforce Engagement Director in 2019, having joined the Board as a Non-Executive Director in February 2016.

Skills and experience

Steven brings considerable international executive experience to the Board, gained in a number of FMCG companies. This includes 18 years at SC Johnson & Sons Inc., most recently as Chief Operating Officer, where he was responsible for managing its international operations. Steven has also previously held senior positions at Sara Lee Corporation, including as Chief Executive Officer of Sara Lee Bakery, and at CompuServe Corp. He is also a former Non-Executive Director of Chiquita Brands International Inc. and Hewitt Associates.

External appointments

Steven is a partner of, private equity firm, Wind Point Partners². He is also a Non-Executive Director of Primo Water Corporation¹ and Group 1 Automotive Inc¹.



4. SUE CLARK SENIOR INDEPENDENT DIRECTOR

Appointment

Appointed Non-Executive Director in December 2018, Chair of the Remuneration Committee in February 2019 and Senior Independent Director in January 2020.

Skills and experience

Sue has strong international business credentials with over 20 years' Executive Committee and Board level experience in the FMCG, regulated transport and utility sectors. Sue held the role of Managing Director of SABMiller Europe and was an Executive Committee member of SABMiller plc. She joined SABMiller in 2003 as Corporate Affairs Director and was part of the executive team that built the business into a top five FTSE company.

External appointments

Non-Executive Director and Chair of the Remuneration Committee of Britvic plc¹; a Non-Executive Director of Tulchan Communications LLP²; and a Non-Executive Director and member of the Audit, Nominations and Remuneration Committees of Mondi plc¹.



5. ALAN JOHNSON NON-EXECUTIVE DIRECTOR

Appointment

Appointed Non-Executive Director in January 2021.

Skills and experience

Alan has a strong financial background in consumer goods and retail, having held a number of senior finance positions at Unilever during a 30-year career, including Chief Audit Executive and Chief Financial Officer of the Global Foods Division. He was previously Chief Financial Officer and then a Non-Executive Director at food retailer Jerónimo Martins, SGPS, SA until April 2016.

External appointments

President and Chair of the Board of the International Federation of Accountants and a member of the Board and Chair of the Audit Committee of the International Valuation Standards Council. Alan is also a Non-Executive Director of William Grant & Sons Ltd¹.



9. JON STANTON NON-EXECUTIVE DIRECTOR

Appointment

Appointed Non-Executive Director in May 2019 and Chair of the Audit Committee in June 2020.

Skills and experience

Jon has a wide range of international leadership experience, encompassing transformation, M&A and all aspects of finance, principally in the B2B sector. In 2016 he was appointed Chief Executive of The Weir Group PLC, one of the world's leading engineering businesses, having previously been CFO from 2010. Prior to that he spent 22 years at Ernst & Young LLP, the last nine years of which were as a partner in its London office. Jon is a Chartered Accountant and member of the ICAEW.

External appointments

Chief Executive of The Weir Group PLC¹.

10. JOHN DOWNING COMPANY SECRETARY

Appointment

Appointed Company Secretary in June 2012.

Skills and experience

John, a qualified solicitor, joined Imperial in 2005 having previously worked for the law firm Linklaters.

He has had a number of senior legal roles in Imperial including playing a leading role in the Altadis acquisition and becoming Head of Group Legal in 2010. He has considerable experience in managing key corporate projects related to financing, business development and other commercial matters. In addition to his Group Company Secretary role, John also has responsibility for the Group's governance, Code of Conduct, security and information security.

THE BOARD

FOCUS IN 2021

- The wellbeing of our people and continuing business stability during the ongoing COVID-19 pandemic.
- Strategic review for growth and sustainability.
- Board succession including Chief Financial Officer and Non-Executive Director recruitment and on-boarding.
- Investment in and delivery from priority tobacco markets.
- Execution in NGP.
- Delivery against our sustainability agenda.

LOOKING AHEAD TO 2022

- The wellbeing of our people and continuing business stability during the ongoing COVID-19 pandemic.
- Board succession and diversity.
- Further development and embedding of our renewed culture and purpose.
- Delivery against our renewed strategy.

BOARD AND COMMITTEE MEMBERSHIP AS AT 30 SEPTEMBER 2021

	Board	Audit Committee	Remuneration Committee	Succession and Nominations Committee
<i>*Denotes Chair</i>				
Non-Executive Directors				
Thérèse Esperdy (Chair)	X*		X	X*
Sue Clark (SID)	X	X	X*	X
Alan Johnson	X	X		X
Bob Kunze-Concewitz	X		X	X
Simon Langelier	X	X		X
Steven Stanbrook	X		X	X
Jon Stanton	X	X*	X	X
Executive Directors				
Stefan Bomhard (CEO)	X			
Lukas Paravicini (CFO)	X			

OVERVIEW

The Board was not able to spend as much time together physically nor visiting parts of the business, as we would have liked, due to the ongoing pandemic. However, we used MS Teams to have a wide range of individuals present to, and engage with, the Board and a broad range of our stakeholders.

The Board's role is to provide leadership and direction to the Group. Supported by its Committees, it maintains a strong governance framework which, together with our high ethical standards, supports the long-term sustainability of the Group.

The Directors played a key role in setting our renewed strategy. Ensuring it is implemented responsibly, within the governance framework and their legal duties to act in the way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders, whilst having regard to the interests of all stakeholders. The Directors also played a key role in developing our revised purpose and values which are being launched early in our 2022 financial year.

As part of the governance framework the Board has adopted a schedule of matters on which it must make the final decision. These include approving the Group's strategy, business plans, dividends and major financial announcements. The Board is also responsible for approving the acquisition or disposal of assets exceeding defined thresholds.

The Board discharges its responsibilities through an annual schedule of meetings. In addition to these formal scheduled meetings, the Board convenes as required to consider matters of a time-sensitive nature. It also delegates responsibility for developing and implementing strategy and for day-to-day management to our Chief Executive Officer, Stefan Bomhard, who is supported by the Chief Financial Officer and by the Executive Leadership Team (ELT), which he chairs. Within clearly defined terms of reference, the Board delegates certain matters to its Committees. These delegations are supported by the Group Approvals Matrix which ensures that decisions are made with the appropriate authority. These terms of reference have been reviewed this year against the latest guidance from the Chartered Governance Institute and together with other key governance documents, including our Code of Conduct, they can be found at

 www.imperialbrandsplc.com.

The ELT comprises senior executives from across the business. It oversees operational execution and implementation of our strategic and financial plans. The ELT and Audit Committee also ensure that, within the risk framework set by the Board, appropriate and effective internal controls are in place, and effective risk identification and management processes, including those discussed on pages 80 to 91, operate throughout the Group.

BOARD PROGRAMME IN 2021

Seven scheduled Board meetings were held during the year. The Board also convened between these meetings to discuss specific time sensitive matters; for example, the Board met virtually a number of times between November 2020 and February 2021 to develop and approve the renewed strategy and progress the Chief Financial Officer succession.

In the context of COVID-19 the safety of our people was a key theme of meetings and was a priority for Board engagement outside of formal meetings during the year. Other standard agenda items included strategy development and implementation, business performance and general corporate housekeeping. In addition to these, the following principal agenda items were covered in the financial year:

HOW THE BOARD SPENT ITS TIME (%)

Strategy and business plans



- Consideration of business plan.
- Review of regional plans.
- Development of renewed strategy.
- Competitor updates.

Financial



- Funding, going concern and viability.
- Half-year and final results.
- Cash and debt metrics.
- Investor engagement.

Operational



- Priority market deep dives.
- Business updates.
- Manufacturing and supply chain update.

Governance and risk framework



- Effectiveness of internal controls.
- Risk appetite and risk management updates.
- Regulatory and legislation development updates.
- ESG and sustainability.
- Directors' independence.
- Cyber security review.
- Board evaluation.

People



- Health and safety of our colleagues.
- CFO and ELT succession.
- NED succession.
- People and culture review.
- Workforce engagement.

ATTENDANCE AT MEETINGS OF THE BOARD, BOARD COMMITTEES AND AGM

	Board	Succession and Nominations Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in financial year	11	4	4	5	1
Number of meetings attended in financial year					
Executive Directors					
Stefan Bornhard	11/11	-	-	-	1/1
Lukas Paravicini ¹	4/4	-	-	-	-
Oliver Tant ²	7/7	-	-	-	1/1
Non-Executive Directors					
Thérèse Esperdy	11/11	4/4	-	5/5	1/1
Sue Clark	11/11	4/4	4/4	5/5	1/1
Alan Johnson ³	7/7	3/3	3/3	-	1/1
Bob Kunze-Concewitz ⁴	9/10	4/4	-	5/5	1/1
Simon Langelier	11/11	4/4	4/4	-	1/1
Pierre-Jean Sivignon ⁵	8/8	2/2	3/3	-	1/1
Steven Stanbrook	11/11	4/4	-	5/5	1/1
Jon Stanton ⁶	10/11	4/4	4/4	5/5	1/1

1. Lukas Paravicini joined the Board on 1 May 2021.

2. Oliver Tant retired from the Board on 18 May 2021.

3. Alan Johnson joined the Board on 1 January 2021.

4. Bob Kunze-Concewitz joined the Board on 1 November 2020. Unable to attend one ad-hoc meeting due to a family emergency.

5. Pierre-Jean Sivignon stepped down from the Board on 4 June 2021.

6. Jon Stanton was unable to attend one ad-hoc meeting due to attending the funeral of a close family member.

KEY BOARD ACTIVITIES

KEY BOARD ACTIVITIES

The key areas considered by the Board during the year are set out below. The Board recognises the importance of engaging with our stakeholders in order to understand their views, for example gained from our Meet the Board sessions. In addition stakeholder views are included within Board papers, where

relevant. Stakeholder views are taken into account when making decisions, for example the development of our renewed strategy. You can read more in our s.172 statement on pages 42 to 44. A typical Board meeting comprises reports on operational and financial performance, including the health and safety of our colleagues, legal and governance updates, investor relations

updates and a deep dive into a focus market. The Chairs of our Committees also report on the proceedings of their Committees including any specific matters that require the attention of the Board. Details of the Directors' attendance at the scheduled meetings during the year can be found on page 99.

2021 Focus and activities

Focus on top five combustible markets.

We have focused our investment and resources behind our five most important markets. The Board recognised that decisions in the past have not been sufficiently informed by consumer insights and data. We are, therefore, investing to support a consistent approach to consumer insight. These insights have supported the Board's decisions, including enhancing capabilities in brand and trade marketing, portfolio management, innovation and sales excellence. This transformation is being supported by the newly appointed Chief Consumer Officer.



See page 43 for more information

More disciplined execution in NGP.

Informed by consumer insights and validation, we are resetting our NGP strategy. We are focusing our investment behind heated tobacco opportunities in Europe, and in selective market opportunities in vapour, particularly in the USA. Our oral nicotine business remains focused on its existing markets within Europe. Our investment will be disciplined and based on detailed market testing. Our aim is to develop a sustainable NGP business that supports our ESG agenda by making a meaningful contribution to harm reduction by offering potentially reduced risk products to adult smokers.



See page 44 for more information

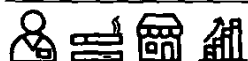
The wellbeing of our people and continuing business stability during the ongoing COVID-19 pandemic.

In addition to its normal health and safety updates the Board received regular updates on the impact of COVID-19 on our colleagues and our operating environment. These included the challenges faced by the logistics industry and ensuring continuity of supply to our consumers.

The pandemic impacted the Board's programme of visits and engagement, a number of which were postponed due to lockdowns and our internal protocols for protecting our colleagues. However, the Board introduced "Meet the Board" forums to enable colleagues to meet virtually with our NEDs.

The Board was kept apprised of our support to employees which includes flexible working, tips on coping with home working, mental wellness and the provision of "lockdown" learning support available through our learning portal.

Stakeholders considered



s. 172 factors



STAKEHOLDERS:



Colleagues



Consumers



Customers



Governments & regulators



Investors



Suppliers

2021 Focus and activities

Strategic review for growth and sustainability.

Guided by a comprehensive strategic review which took into account feedback from a number of our stakeholders, the Board approved a new strategy and five-year plan to transform the business. The strategy focuses on: revitalising our tobacco business with increased focus on our top five markets; a disciplined NGP business committed to harm reduction by offering potentially reduced risk products to adult smokers and providing options for growth; reshaping our culture and ways of working to place the consumer at the centre of our business; delivering a strong and consistent performance; and a clear capital allocation framework.

The Board is now overseeing the implementation of the strategy, recognising its impact on our colleagues and ensuring progress is rapid to minimise the uncertainty they may be feeling.

Board succession including Chief Financial Officer and Non-Executive Director recruitment and on-boarding.

Following the departure of Alison Cooper and Karen Wits in our previous financial year, the Board was mindful that it did not meet either gender or ethnic diversity expectations and acknowledged the feedback it received at the time of the AGM in February 2021. Taking this feedback into account, during the year the Board appointed Alan Johnson and Lukas Paravicini and is pleased that Ngozi Edozien and Diane de Saint Victor will join the Board as Non-Executive Directors, with effect from 15 November 2021.

Delivery against our sustainability agenda.

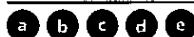
To ensure our ESG strategy is aligned to the new commercial strategy and given the huge impact COVID-19 has had on both the external environment and on areas of our business, the new leadership team agree it is an opportune time to review the current ESG strategy. Building upon the strategic work on purpose and vision, more emphasis is required on resilience and sustainability based upon ESG risks for now and in the future to ensure stakeholder expectations are met and exceeded.

To underscore this increased emphasis and ensure the alignment of ESG priorities to the business strategy, we have strengthened our ESG team with the hiring of Tony Dunnage as Head of ESG. Tony brings more than 30 years' experience in Unilever, directing end-to-end supply chain and manufacturing sustainability for 250-plus factories and will report directly to the ELT.

Stakeholders considered



s. 172 factors



S. 172 FACTORS

a

The likely consequences of any decision in the long term

b

The interests of the Company's employees

c

The need to foster business relationships with suppliers, customers and others

d

The impact of the Company's operations on the community and the environment

e

The desirability of the Company maintaining a reputation for high standards of business conduct

BOARD ENGAGEMENT IN ACTION

ENGAGEMENT WITH INVESTORS

We value the support and engagement of our shareholder community and understand the importance of this to the future success of the business. Our aim is to provide balanced, clear and transparent communications enabling investors to understand how we see our prospects and the market environments in which we operate.

In the year, our programme of shareholder engagement ensured the Board was fully aware of shareholder concerns. This programme included *Thérèse Esperdy* regularly meeting investors to hear their views directly and to update and consult with them on several areas. We changed our emphasis this year to give investors the opportunity to meet our new CEO, *Stefan Bomhard*, and to understand the new strategy. The results roadshow following our 2020 annual results enabled Stefan to provide investors with his first impressions of the business and update them on his approach and progress on the strategic review.

Once the strategic review was concluded, we held a virtual Capital Markets Day in January 2021 to outline the new strategy and to set future expectations for the business. This event was attended by c.450 investors and sell-side analysts and was followed up by an investor roadshow to engage with investors on what the new strategy entails and how it will be implemented. Subsequently, we reported our interim results, the first results under the new strategy, and again, conducted a virtual investor roadshow with our major shareholders.

Our AGM provides an opportunity for the Board to meet with shareholders, particularly our retail investors. In addition, we maintain a programme of active dialogue with our key financial stakeholders, including institutional shareholders, potential investors, holders of our bonds, rating agencies and sell-side research analysts. We encourage an open, two-way engagement with investors and other stakeholders through our programme of investor relations activities.

A full programme of international engagement is undertaken each year by our investor relations team, who are regularly accompanied by one or more of the Executive Directors. Although the COVID-19 pandemic continued to curtail our ability to hold meetings in person, meetings were successfully enabled through video and telephone conferencing. While some virtual meetings will persist, going forward we anticipate a number of meetings and events will return to being held in person. Over the course of the year, our teams held around 600 meetings with investors and research analysts.

As well as our results presentations, senior management presented at various industry conferences, including the Consumer Analyst Group of New York (CAGNY) Conference in February 2021 and investment bank sponsored conferences, including those held by Credit Suisse in March and Deutsche Bank in June. In addition, the investor relations team attended the Barclays conference in September. All conferences were held virtually.

As we began to implement our new strategy, *Thérèse* continued her engagement with investors to hear their feedback on the changes we have made and to continue the dialogue with them she started in the prior year. Topics discussed included the actions taken to improve performance, progress with Executive and Non-Executive recruitment and capital allocation considerations. The Board also receives an investor relations report at every Board meeting, which sets out the latest shareholder views, share register movements and recent market developments. In addition, detailed feedback from investors is collected after each investor event and roadshow, which is shared with and discussed by the Board so it has a good understanding of investor views.



Read more on how the Board is considering wider stakeholders in key decisions in our SI72 statement on pages 42 to 44

ENGAGEMENT WITH COLLEAGUES

Despite the challenges of the COVID-19 pandemic, we have continued our workforce engagement activities. For example, during the year, we introduced "Meet the Board" forums in which a number of employee representatives, from a diverse range of areas of the business and locations, met virtually with our NEDs.

These forums provided the opportunity for two-way dialogue around key themes such as NCP strategy, diversity and inclusion, broader ESG issues and culture. The forums also included discussion in respect of the work of the Remuneration Committee, executive remuneration and the changes to our Long-Term Incentive Plan.

Feedback from colleagues attending these forums has been overwhelmingly positive, with colleagues appreciating the open and honest approach and finding such forums both informative and helpful in connecting with the strategic direction of the Group.

Insights gained from these sessions have given the Board a better understanding of colleague sentiment on a broad range of issues, helping it to better consider colleagues when making decisions.

We also introduced a series of "Connections" sessions, which bring together colleagues from across our business to learn about their roles and responsibilities, who they are and what they do.

These sessions included our Chair Thérèse meeting one of our brand managers based in the US to talk about their role and how the COVID-19 pandemic has influenced our marketing strategy. A transcript of the sessions is widely shared with colleagues via our intranet. These sessions provide our Directors with the opportunity to enhance their understanding of various aspects of the business and to bring this understanding to the Board.

The Board was engaged with the formulation of the Company's Purpose, Vision and Behaviours. This included individual conversations with Board members, as well as discussions as a full Board. These discussions were informed by background information

and presentations on the listening exercises undertaken by the business which helped to understand the culture of the organisation further by identifying those areas that need to be addressed and those that can be built upon in order to realise the cultural change elements of the transformation journey (see page 48 on Developing and Embedding New Behaviours, as well as Focusing on Diversity and Inclusion, which is another area where the Board has been engaged).

The activities we are undertaking to enhance skills and capabilities to embed new behaviours and a performance-based culture, are summarised on page 49. The Board will continue to monitor progress.

Image removed

Senior Independent Non-Executive Director Sue Clark speaking at a 'Meet the Board' event.

GOVERNANCE DIVISION OF RESPONSIBILITIES

THE BOARD AND ITS COMMITTEES

The Board is responsible for the governance of the Company, undertaking its duties within a framework of clear authorities and governance structures, with effective controls that enable risk to be assessed and managed effectively.

The Board sets the tone for the Group from the top and delegates responsibilities for specific tasks to its Committees. Each of these Committees has specific written terms of reference issued by the Board, adopted by the relevant Committee and published on our website at www.imperialbrandspc.com/about-us/governance. All Committee Chairs report on the proceedings of their

Committee at the next meeting of the Board and make recommendations to the Board where appropriate. In addition, minutes of Committee meetings are circulated to all Board members.

To ensure Directors are kept up to date on developing issues and to enhance the overall effectiveness of the Board and its Committees, the Board Chair and Committee Chairs communicate regularly with the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Where appropriate the Board convenes virtually outside of scheduled meetings to consider time sensitive matters.

A summary of key elements of the roles of the Board Directors and Company Secretary is set out below.

Supported by its Committees the Board provides leadership and direction to the Group. The Directors have a key role in developing our strategy and overseeing its implementation within our strong governance framework and in a manner that is most likely to promote the Group's success for the benefit of shareholders, having regard to the interests of other stakeholders.

As part of the governance framework the Board has adopted a schedule of matters on which it must make the final decision. These include approving the Group's strategy, business plans, dividend, major financial announcements and acquisitions or disposals exceeding defined thresholds.

Chair	Chief Executive Officer	Chief Financial Officer	Senior Independent Director	Non-Executive Directors
Leads our Board and creates an environment that ensures there are strong links between the Board, management and stakeholders.	With the CFO, has day-to-day management responsibility for the Group and for devising and implementing the Group's strategy.	Supports the CEO in devising and implementing our strategy and overseeing the finances, operation and development of the Group.	Assists the Chair with effective shareholder communications including if investors have any issues which have not been resolved through the normal channels. Is available to our Directors should they have any concerns not appropriate to raise with the Chair.	Evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring a diverse range of business and financial skills and experience that complement and supplement those of our Executive Directors.

PRINCIPAL BOARD COMMITTEES:

Audit Committee

Assists the Board in fulfilling its corporate governance responsibilities. This includes oversight of the Group's external audit, internal control systems, risk management framework and process and the Internal Audit department. The Committee's responsibilities also include ensuring the integrity of the Group's financial statements and related announcements.

Succession and Nominations Committee

Reviews and evaluates the composition and succession plans of the Board and its Committees, to maintain an appropriate balance of skills, knowledge, experience and diversity. Retains oversight of the development plans for ELT members together with the Company's wider organisational structure and talent management processes.

Remuneration Committee

Sets and implements our Remuneration Policy aimed at aligning the interests of Executive Directors and senior management with those of our stakeholders, ensuring our ability to attract and retain high performing executives whilst incentivising the delivery of our strategic objectives and sustained returns for investors.

Executive Leadership Team

As detailed above, the ELT oversees operational execution and delivery of our strategic and financial plans.

OTHER NON-BOARD COMMITTEE:

ESG Steering Committee

During the year the ESG Steering Committee was chaired by Board Chair Thérèse Esperdy, with a remit to oversee the management of our priority ESG responsibilities and to ensure the successful delivery of our sustainability strategy. The Committee membership included senior managers from our sustainability team, leaf sustainability, procurement, legal, HR, manufacturing and supply chain, finance, science and corporate affairs.

Two meetings were held during the year, focused on ensuring the business is prepared for the Task Force on Climate-related Financial Disclosures (TCFD) requirements which will be mandatory for Imperial to report on in 2022. In relation to this the Committee discussed the need to update the previous climate risk and opportunities scenario analysis conducted in 2018. As outlined on page 51 the ESG Steering Committee will be reconstituted in the coming financial year to be chaired by the CEO.



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See pages 50 to 63 for details of our ESG work

SKILLS MATRIX

	Non-Executive Directors									Executive Directors	
	Thérèse Esperdy (Chair)	Sue Clark (SID)	Alan Johnson	Robert (Bob) Kunze- Concewitz	Simon Langelier	Steven Stanbrook	Jon Stanton	Ngozi Edozien ¹	Diane de Saint Victor ¹	Stefan Bornhard (CEO)	Lukas Paravicini (CFO)
	R N	R A N	A N	R N	A N	R N W	R A N				
Other current NED or executive roles	✓	✓		✓	✓	✓	✓	✓	✓	✓	
FTSE 100/NYSE experience	✓	✓	✓		✓	✓	✓		✓	✓	
UK corporate governance background	✓	✓					✓	✓	✓	✓	
Financial qualification	✓		✓				✓	✓			✓
FMCG sector experience		✓	✓	✓	✓	✓		✓		✓	✓
Marketing & digital				✓		✓			✓	✓	
Product development				✓	✓	✓				✓	
Strategy		✓	✓	✓		✓	✓	✓		✓	✓
International operations	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Change management / HR	✓	✓		✓	✓	✓		✓	✓	✓	✓
Government and Regulatory Affairs		✓		✓			✓		✓		

1. Joining the Board 15 November 2021.

A Audit Committee
 N Succession and Nominations Committee
 R Remuneration Committee
 ● Committee Chair
W Workforce Engagement Director

NEW SKILLS ON THE BOARD

Image removed

LUKAS PARAVICINI
Lukas joined the Board on 1 May 2021 and became Chief Financial Officer on 19 May 2021 and brings significant financial experience most recently at agricultural commodities and brokerage group ED&F Man Holdings where he was also CFO. In addition to his impeccable finance credentials Lukas brings considerable operational experience as well as expertise in driving transformational change in large international organisations. The Board sees these qualities as being invaluable to the Group as it implements its new strategy.

Image removed

BOB KUNZE-CONCEWITZ
Bob joined the Board on 1 November 2020 and brings to the Board a wealth of international business experience particularly in marketing, having held a number of senior roles at leading FMCG companies. Bob is currently Chief Executive Officer of Campari Group and a former Global Prestige Products Corporate Marketing Director at Procter & Gamble.

Image removed

ALAN JOHNSON
Alan joined the Board on 1 January 2021 and brings to the Board a strong financial background, having held a number of senior finance positions at Unilever and food retailer Jerónimo Martins, SGPS, SA. Alan is currently President and Chair of the Board of the International Federation of Accountants and a member of the Board and Chair of the Audit Committee of the International Valuation Standards Council. Alan is also a Non-Executive Director of William Grant & Sons Ltd.

JOINING THE BOARD 15 NOVEMBER 2021

Image removed

NGOZI EDOZIEN
Ngozi joins the Board on 15 November 2021 and brings over 30 years' experience in general management, finance, consultancy, business development and transformation gained at multinational companies, including in consumer goods, in Europe, USA and Africa. Ngozi is a Non-Executive Director of Guinness Nigeria, a listed subsidiary of Diageo, Stanbic IBTC Holdings PLC and Barloworld Ltd. She is also Founder and Managing Director of Invivo Partners Limited.

Image removed

DIANE DE SAINT VICTOR
Diane also joins the Board on 15 November 2021 and brings strong legal, regulatory and ESG experience, having held a number of General Counsel, Company Secretary and other key roles in an international career spanning more than 30 years. Diane has experience of transforming organisations in sectors undergoing change, most notably at ABB where she was an Executive Committee member. Diane is a Non-Executive Director at Transocean Ltd and Natixis S.A and was previously a Non-Executive Director at Barclays plc.

BOARD STATEMENTS

SECTION 172 OF THE COMPANIES ACT 2006

The Board seeks to consider the interests of all relevant stakeholders when making decisions. The formal statement is disclosed on pages 42 to 44 and throughout this Annual Report we have included information on how your Board operates and considers the interests of stakeholders when making its decisions.



Read more on
pages 42 and 44

VIABILITY STATEMENT

On the basis of a robust assessment of the principal risks facing the Group, and on the assumption that they are managed or mitigated in the ways disclosed on pages 92 and 93, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2024.



Read more on
pages 92 and 93

GOING CONCERN BASIS

Having assessed the principal risks facing the Group, including the current and forecast future impacts of the ongoing COVID-19 pandemic, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet operational needs from the date of this Report through to March 2023 and, therefore, concludes that it is appropriate to prepare the financial statements on a going concern basis.



Read more on
page 92

PRINCIPAL RISKS AND UNCERTAINTIES

The processes and related reporting, described in the Principal Risks and Uncertainties section on pages 80 to 93, enables the Audit Committee to review and monitor the effectiveness of our risk management and internal control systems and confirm their effectiveness to the Board in accordance with the recommendations of the Code.



Read more on
pages 80 and 93

FAIR, BALANCED AND UNDERSTANDABLE

The Directors confirm that they consider, taken as a whole, this Annual Report and Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.



Read more on
page 116

MODERN SLAVERY STATEMENT

As an international business, we recognise the importance, influence and duty we have in promoting respect for human rights across our business and supply chains. We prepare an annual Modern Slavery statement which is available on our website. Our e-learning module, which provides a global overview of human rights abuse of modern slavery and explains how employees can raise concerns, is now available in 15 languages and rolled out to employees. This year, the course was also delivered in person to 450 people who do not have access to online learning in Madagascar and Laos, including farmers.



Read more on
page 53



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SPEAKING UP

This year we launched our new Speaking Up platform, which is available both to our employees and to other stakeholders, including suppliers and farmers. The new platform offers a wide range of reporting routes and supports anonymous reporting and feedback.

Our supporting Speaking Up policy was also updated to align with the new process, with the policy being made available both internally and on our website.

Internal processes, including procurement and human resources, have been aligned to the new Speaking Up process.

During the year we also took steps to enhance our Speaking Up investigations process.

We have commenced a programme to improve communication and awareness of Speaking Up, with an emphasis on farming communities.

The Group's Audit Committee is routinely provided with updates on our Speaking Up incidents and the operation of our Speaking Up process, which was relaunched on 1 November 2020. If incidents are material they are also reported to the Board. Steven Stanbrook, our Workforce Engagement Director, has taken a close interest in the ongoing improvements to our Speaking Up process.

DIVERSITY POLICY

As a global business, diversity is an integral part of how we do business. As set out in our strategy review on pages 48 and 57, the Board recognises the value of gender diversity to the Group and is committed to increasing the representation of females within senior management roles to 33 per cent by 2023.

At Board level, women, including our Chair and Senior Independent Director, represented 22 per cent of our Directors as at 30 September 2021. This will increase to 36 per cent on 15 November 2021 when, as previously announced, we welcome Ngozi Edozien and Diane de Saint Victor to the Board. Searches for Board candidates and any subsequent appointments are primarily driven by merit and the strategic needs of the organisation, whilst looking to ensure we have the appropriate balance of skills, diversity of experience, demographics, professional and geographic and, mindful of the Parker Review, ethnic backgrounds on our Board. Following the appointment of Ngozi, in November 2021, 17 per cent of the Board will be from an ethnic minority background.

In the wider Imperial organisation and particularly senior management, we are committed to ensuring that all employees have an equal chance of developing their careers within the Group.

We are making significant changes to how we approach diversity and inclusion and creating initiatives to raise awareness of processes and behaviours within the business that could exclude women and other marginalised groups.

We have run a global Inclusion Diagnostic hearing from almost 10,000 colleagues and, as a result, have initiated a leadership development programme for our


senior leaders to educate them around what inclusion is and the role they play in ensuring all our colleagues feel able to bring their best selves to work every day. Additionally, we have established four global Employee Resource Groups (ERGs) to deepen our understanding of the experiences of those in non-dominant groups and help address the opportunities to improve their working lives. The ERGs are: Ethnicity, Disability, Gender and LGBTQ+. Regular global engagement surveys are undertaken and our global diagnostic survey is championed by the Workforce Engagement Director. This is in addition to our Board members running "Meet The Board" sessions with colleagues from across the business to truly understand what is on their mind and views on how the business is progressing towards its renewed strategy.

Targeted learning programmes are being embedded at all levels to help us work towards creating an inclusive culture. We have rolled out Unconscious Bias and Microaggression e-learning modules as a starting point in our learning series of awareness raising interventions following the Inclusion Diagnostic.

We have created a new Flexible Working programme (WORKFLEX) for our UK business, to encourage a more diverse range of candidates into the business and increase flexibility in our ways of working.

We are reviewing our recruitment practices, with a view to implementing initiatives to drive change in our interview processes and practices, enhancing our talent pool. We have also enhanced practices such as exit interviews so we can better understand why employees (especially our female talent) want to leave, and put processes in place to remedy any issues identified.

SUCCESSION AND NOMINATIONS COMMITTEE

	
THÉRÈSE ESPERDY CHAIR OF THE SUCCESSION AND NOMINATIONS COMMITTEE	
Members Thérèse Esperdy (Chair) Sue Clark Alan Johnson Bob Kunze-Concewitz Simon Langelier Steven Stanbrook Jon Stanton	Other regular attendees Chief Executive Officer Chief Financial Officer Chief People and Culture Officer Company Secretary
Focus in 2021 <ul style="list-style-type: none"> • CFO succession. • Non-Executive Director succession. • Board diversity. • Ongoing executive and senior management succession planning. • Talent development including enhancing the ELT. • Further building organisational capability. 	
Looking ahead to 2022 <ul style="list-style-type: none"> • Ongoing Non-Executive Director succession. • Executive and senior management succession planning. • Board and senior management diversity. 	

OVERVIEW

Role of the Committee

The Board has delegated to the Succession and Nominations Committee responsibility for reviewing and evaluating the composition of the Board and its Committees to maintain the appropriate balance of skills, knowledge, experience, independence and diversity. The Committee aims to achieve this responsibility using a merit-based approach within a diverse and inclusive culture. It leads the process for appointments through external search consultants, such as Heidrick and Struggles¹ and Heads International¹, looking for candidates that enhance the overall effectiveness of the Board and demonstrate independence of mind and integrity. Succession plans for the Chair, Non-Executive Directors (NEDs), Executive Directors and the Group's senior management, in particular the ELT, are kept under review.

The Succession and Nominations Committee also oversees the development of a diverse and inclusive pipeline for succession for ELT members together with the Company's wider organisational structure and talent management processes. This allows the Committee to ensure the Company is developing the right capabilities and has appropriate succession plans in place for sustainable delivery of our strategy. During the year we strengthened our ELT with the promotion of Kim Reed and the appointment of Andy Dasgupta, Javier Huerta and Paola Pocci; see pages 22 and 23.



The Succession and Nominations Committee's terms of reference are available on our website www.imperialbrandspc.com.

“
We have made a number of
Board and senior management
appointments to enhance diversity
and capabilities in key areas.
”

Election and re-election of Directors

All Directors are appointed following a rigorous selection process led by the Succession and Nominations Committee, supported by the Group HR function, which then makes recommendations to the Board. See below for details of the appointment process for our new CFO and NEDs.

In accordance with the Code and with the Company's Articles of Association, all Directors put themselves up for re-election annually at the AGM; at our forthcoming AGM Lukas Paravicini, Ngozi Edozien and Diane de Saint Victor will be standing for the first time. The Board recommends the election or re-election of all Directors who are standing at our 2022 AGM. Read more about the skills and experience of our Board on pages 96 to 97 and 105.

Refreshing the Board and its Committees

During the year the Committee has overseen the appointment of our new CFO and three Non-Executive Directors. We are mindful of our diversity obligations, including

the Davies, Parker and Hampton-Alexander Reviews, together with the continuing FTSE Women Leaders review and will continue to incorporate these into our search criteria for Board members and senior management. We are pleased that by 15 November 2021, 36 per cent of the Board will be female and two of our Directors will be from an ethnic minority background. Following the announcement in August 2020 that Oliver Tant would retire, a key focus for the Committee was CFO succession. We initiated an extensive process to identify the best internal and external candidates. Heidrick and Struggles¹ was selected to provide the Committee with advice, assessment and support throughout this process. Lukas Paravicini was selected as being the best fit with our criteria, with the skill set which will be invaluable to Imperial as we implement our new strategy.

During the year we welcomed Bob Kunze-Concewitz and Alan Johnson as Non-Executive Directors. Bob is a member of the Remuneration Committee and Alan a member of the Audit Committee. Bob and Alan were selected from a number of candidates

identified by Heads International¹ and Heidrick and Struggles respectively. The Committee recommended its preferred candidates to the Board, all members of which were fully supportive of the appointments.

The Board was saddened that Pierre-Jean Sivignon had to step down for unforeseen personal reasons and would like to thank him for his contribution and wish him the very best for the future.

Following recommendations from Heidrick and Struggles, on 31 August 2021 we were pleased to announce that following recommendations from the Committee the Board had appointed Ngozi Edozien and Diane de Saint Victor as Directors with effect from 15 November 2021. Ngozi will join the Audit Committee and Diane the Remuneration Committee.

Thérèse Esperdy

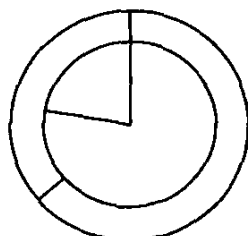
THÉRÈSE ESPERDY
CHAIR OF THE SUCCESSION AND
NOMINATIONS COMMITTEE

1. Other than recruitment at Board and senior management level they do not have any other connection with the Company or its Directors.

GOVERNANCE COMPOSITION, SUCCESSION AND EVALUATION - CONTINUED

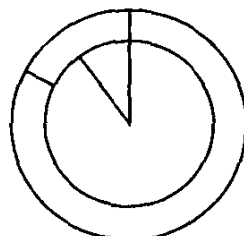
BOARD BALANCE

BOARD GENDER BALANCE



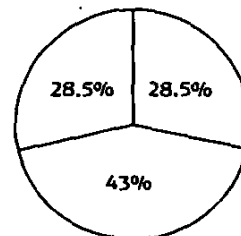
	At 30 September 2021	Post 15 November 2021
Male	78%	64%
Female	22%	36%

BOARD ETHNICITY



	At 30 September 2021	Post 15 November 2021
Ethnic majority background	90%	83%
Ethnic minority background	10%	17%

TENURE OF NON-EXECUTIVE DIRECTORS AT 30 SEPTEMBER 2021



0-3 Years	28.5%
3-5 Years	43%
5-7 Years	28.5%

INDUCTION PROGRAMME FOR CFO

Following his appointment in May 2021, Lukas held virtual or physical meetings with all 10 of our cluster operations as well as online town hall sessions with around 675 members of our finance teams around the world.

In addition to meeting with employees, Lukas has also met with shareholders, ratings agencies, our auditors and remuneration advisers.

Factory and leaf supplier visits will also be scheduled as worldwide travel restrictions continue to ease. These will be held in tandem with our Chief Supply Chain Officer, Javier Huerta.

COMPOSITION AND ROLES

During the financial year, the Board was composed as follows:

Chair <ul style="list-style-type: none"> Thérèse Esperdy 	<ul style="list-style-type: none"> Thérèse leads the Board and creates an environment that ensures there are strong links between the Board, our stakeholders and management. On appointment, Thérèse met the independence criteria of the Code. There have been no significant changes to her external commitments during the year.
Chief Executive Officer <ul style="list-style-type: none"> Stefan Bornhard 	<ul style="list-style-type: none"> Supported by the CFO and ELT, Stefan has day-to-day management responsibility for the Group and the development of its strategy. Stefan and the CFO actively promote the Group's high standards of conduct and behaviour, which underpin our reputation and support our renewed strategy.
Chief Financial Officer <ul style="list-style-type: none"> Lukas Paravicini (from 19 May 2021) Oliver Tant (until 18 May 2021) 	<ul style="list-style-type: none"> Lukas supports Stefan in developing our strategy and overseeing the operations and development of the entire Group, in addition to specific responsibility for the Group's Finance function.
Senior Independent Director <ul style="list-style-type: none"> Sue Clark 	<ul style="list-style-type: none"> Sue is responsible for assisting the Chair with effective shareholder communication and is available to shareholders should they have any concerns which have not been resolved through the normal channels or if these channels are not appropriate. She is available should our NEDs have any concerns which are not appropriate to raise with the Chair or which have not been satisfactorily resolved by the Chair. Sue also acts as a sounding board for the Chair and carries out the Chair's performance evaluation.
Independent Non-Executive Directors <ul style="list-style-type: none"> Alan Johnson (from 1 January 2021) Bob Kunze-Concewitz (from 1 November 2020) Simon Langelier Pierre-Jean Sivignon (from 1 July 2020 until 4 June 2021) Steven Stanbrook Jon Stanton Ngozi Edozien and Diane de Saint Victor will join the Board on 15 November 2021. 	<ul style="list-style-type: none"> The NEDs evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring to the Board a diverse skill set and range of business, financial and global expertise which complements and supplements the experience of the Executive Directors.

AUDIT COMMITTEE

Image removed	Members¹ Jon Stanton (Chair) ² Alan Johnson Sue Clark Simon Langelier
JON STANTON CHAIR OF THE AUDIT COMMITTEE	Other regular attendees Board Chair Director of Assurance and Risk ³ Chief Financial Officer Director of Tax Company Secretary Deputy Company Secretary Deputy Chief Financial Officer Representatives from EY, our external auditors ³ Group Financial Controller
Focus in 2021	
<ul style="list-style-type: none"> • Oversight and strengthening of internal control and assurance during the COVID-19 pandemic and a period of significant change for the Group. • Supporting the Board in its evaluation of risk, risk appetite and ongoing risk management. • Evaluating the outcome of the strategic review on critical judgements, estimates and disclosures, in particular on adjusted performance measures and NGP asset carrying values. • Review and challenge of interim and annual financial reporting, including appropriate reporting and presentation of the financial impacts of COVID-19. • Ensuring reporting and disclosures are fair, balanced and understandable throughout the period of change for the Group. • Review of tax strategy to reflect its application to both UK and international taxes and reviewing the reasonableness of provisions and disclosure on material uncertain tax positions. • Ensuring transparency of reporting around risk disclosures, adjusting items and performance value drivers. • Overseeing the embedding of EY as external auditor following completion of first year as auditor in FY20. 	
Looking ahead to 2022	
<ul style="list-style-type: none"> • Oversight of the continuous improvement agenda of risk management, internal control and assurance taking into account the outcome of the BEIS proposals. • Supporting the development of the finance agenda being led by our new CFO to enhance capabilities, prioritise controls and governance and support the broader culture change being led by our CEO. • Reviewing and challenging critical judgements, estimates and disclosures, including adjusted performance measures, particularly as they relate to the ongoing execution of our new strategy, the continuing impact of COVID and an uncertain macro environment. • Ensuring reporting and disclosures are fair, balanced and understandable throughout the period of change for the Group and adequately reflect developments in our ESG commitments and FRC disclosure guidelines. • Implementing recommendations from the review of the Board and Committee effectiveness conducted in FY21 as they relate to the performance of the Audit Committee. • Oversight of the external auditors and implementation of ongoing enhancements to derive value from the external audit whilst also enhancing audit quality. 	

1. All members are independent Non-Executive Directors.

2. Jon Stanton meets the Code's requirement of having recent and relevant financial experience. The Audit Committee and Board are satisfied that he, and the Audit Committee as a whole, have the appropriate competence relevant to the sector in which the Company operates.

3. At each meeting, both the Director of Assurance and Risk and EY have the opportunity to meet with the Audit Committee without management present.

Other Directors are invited to attend each meeting.

GOVERNANCE AUDIT AND INTERNAL CONTROL – CONTINUED

DEAR SHAREHOLDER

I am pleased to present the report to shareholders of the Audit Committee for the year ended 30 September 2021, which sets out how it has discharged its duties in accordance with the Code and details the key matters considered and findings during the year. The Committee has exercised the authority delegated to it by the Board to provide assurance for the integrity of financial statements, to oversee the Group's external and internal audit and to review the Group's internal control and compliance frameworks.

The year has been another of significant change at Imperial Brands PLC. In 2021, against a backdrop of the COVID-19 pandemic, we saw the smooth succession of Lukas Paravicini to the CFO role, initial implementation of the renewed strategy and the completion of the disposal of the Premium Cigar business.

As a result, the Committee has closely scrutinised a number of areas when assessing critical judgements and estimates made by management and in ensuring support for a robust financial close and that the financial statements are fair, balanced and understandable. These included:

- Ongoing evaluation of the appropriateness of NGP tangible and intangible asset values in light of the broader strategic review and a reduction in estimates for the category.
- The challenge and review of management's judgements supporting the going concern and viability statements, including stress testing additional scenarios for material uncertainties. For example, a permanent reduction in profitability and cash flow, the impact of the renewed strategy and the possible effects of climate change. The unwinding of the previously identified risks associated with Brexit but the increased uncertainty related to the ongoing COVID-19 pandemic were also considered.

- Reviewing the effectiveness of the Group's internal control framework and its risk management processes utilised to mitigate key risk areas of the business. These reviews included receiving and reviewing risk management presentations from a number of the Group's key functions including the Division Finance Director Europe and the Finance Director Manufacturing and Supply Chain.
- Ongoing scrutiny and review of provisions for uncertain tax positions linked to tax audits reflecting the Group's multi-jurisdictional nature and an evolving tax regulatory framework and the approval of the Group's tax strategy.

As a Committee, we continue to focus on ensuring the Annual Report is fair, balanced and understandable, with an emphasis on transparency of underlying performance drivers and confirming that adjusting items are in accordance with the agreed framework and that disclosures are enhanced where necessary to help users understand the accounts. This included ensuring that an appropriate balance within both the Half-Year Report and the Annual Report of reported and adjusted results was presented.

Reviewing the effectiveness of EY's first external audit of the Group

The transition of the external audit to EY completed smoothly. In February 2021 we reviewed EY's performance, which indicated a high level of auditor effectiveness across the Group. Further details of the quality review process are set out on page 118. The role of external auditor remains under considerable regulatory scrutiny, a recent example being the 2021 BEIS proposals for audit reform. As a Committee we are kept updated on progress and consultations such that these are reflected in the scope of our agenda. We have continued to review the impact of the Audit and Half-Year Review being conducted remotely due to COVID-19 to ensure there had been no adverse impact on their quality.

Both external and internal auditors continue to present feedback on key financial controls and risks and provide objective and appropriate challenge to management in addressing these areas. Both auditors took advantage of regular private meetings with myself and the full Audit Committee throughout the year. These processes continue to enable the Audit Committee to report to the Board on how it discharged its responsibilities and to make recommendations to the Board, all of which were accepted.

The following pages provide an insight into the range of activities and deliberations of the Audit Committee during the financial year supported by a fuller list of all key matters considered by the Audit Committee set out on pages 113 to 116.

FINANCIAL EXPERT ON THE AUDIT COMMITTEE

For the purposes of the Code, the Board has designated me as the financial expert on the Audit Committee, in view of my being a Chartered Accountant and my previous experience as Chief Financial Officer at Weir Group PLC between 2010 and 2016.



JON STANTON
CHAIR OF THE AUDIT COMMITTEE

MAIN OBJECTIVE

The main objective of the Audit Committee is to assist the Board in fulfilling its corporate governance responsibilities relating to financial and narrative reporting and controls. This includes oversight of the Group's internal control systems, risk management process and framework, Speaking Up arrangements (see pages 61 to 62) and the internal and external audit processes. As the Group's risk profile continues to evolve, the Audit Committee adjusts its scrutiny of relevant risk areas and key judgements, including going concern, viability, working capital valuations and the valuation of intangible assets. This oversight also involves ensuring the integrity of the Group's financial statements and related announcements. During the year the Audit Committee achieved this by:

- maintaining appropriate oversight over the work and effectiveness of the Internal Audit department, including confirming it is appropriately resourced, reviewing its audit findings and monitoring management's responses;
- monitoring and evaluating the effectiveness of Imperial's risk management and internal control systems, including obtaining assurance that controls are operating effectively and are evidenced as such through, for example, the internal self-certification exercise and subsequent internal audit testing;
- scrutinising the independence, approach, objectivity, effectiveness, compliance and remuneration of the external auditor;
- assessing the going concern status and medium-term viability of the Group;
- assisting the Board in confirming that, taken as a whole, the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy (see page 116); and
- reviewing and challenging the critical management judgements and estimates which underpin the financial statements, drawing on the views of the external auditor in making an informed assessment, particularly in relation to each of the key matters detailed on pages 113 to 116.



The Audit Committee's terms of reference are available on our website www.imperialbrandsplc.com.

KEY MATTERS CONSIDERED

The Audit Committee considered the appropriateness of the following areas of significant judgement, complexity or estimation in connection with the financial statements, as set out below:

Focus area	Why this area is significant	How we as an Audit Committee addressed this area
Use of adjusted measures	Non-GAAP or adjusted measures provide an appropriate and useful assessment of business performance and reflect the way the business is managed. They are also used in determining annual and long-term incentives for remuneration, and are widely used by our investors. There is a risk that their inappropriate use could distort the performance of the business.	<p>As reported last year, the Board made a commitment to revisit the continued treatment of restructuring as an adjusting item once the COP II programme finished on its anticipated date in 2020. Against a backdrop of the COVID-19 pandemic this impacted the ability of the Group to conclude its 2020 COP II programme as planned.</p> <p>In January 2021 an announcement was made relating to a Group strategic review which initiated a further restructuring programme. The Audit Committee considered and accepted management's recommendation that restructuring costs associated with this strategic review will continue to be incurred by the Group post FY21 and are expected to conclude in FY23.</p> <p>The Audit Committee reviewed these events alongside the continued guidance from ESMA and previous correspondence with the FRC regarding the treatment of restructuring and agreed that it was appropriate that the implementation of the renewed strategy be treated as a major project restructuring and as an adjusting item until the end of FY22. It also agreed that the Group's Adjusted Performance Measures framework, used for presenting and disclosing the Group results for FY20, should remain unchanged for FY21 and should continue to apply during FY22, noting that in FY22 only charges relating to the Group strategic review would be eligible for restructuring treatment as an adjusting item.</p> <p>The Audit Committee has reviewed the use of alternative performance measures (APMs) in the year including the policies in relation to determining APMs and seeking to understand the nature and amount of all adjusting items. Furthermore, for the year ahead, the Audit Committee will review and approve any changes to APMs proposed by management versus those used currently.</p>

GOVERNANCE AUDIT AND INTERNAL CONTROL - CONTINUED

Focus area	Why this area is significant	How we as an Audit Committee addressed this area
NGP intangible asset carrying values	<p>The Group capitalises certain costs in relation to intellectual property created in support of NGP technology advancements. The ability to continue to hold these balances as assets is dependent on continued plans for the technology to be commercialised and deliver sufficient cash flows to cover carrying value.</p>	<p>Following the strategic review, an impairment review of NGP intangible assets was conducted on a project-by-project basis to assess the likely commercialisation of the intellectual property within each project and the anticipated cash flows associated with those assets as a basis for assessing the appropriateness of carrying values.</p> <p>A further review of the remaining NGP intangible assets was conducted following the arrival of the new Chief Consumer Officer and Chief Financial Officer.</p> <p>The Audit Committee has considered these reviews and a detailed list of NGP intellectual property held by the Group and has assessed management's judgement as to whether these asset valuations remain reasonable. The Audit Committee has also reviewed and agreed those assets impaired or deemed at risk of impairment. The Audit Committee has received feedback from the external auditor as to the level of rigour and robustness of management's view and the level of impairment required.</p>
NGP inventory provisioning	<p>There has been a risk that the carrying value of NGP inventory was overstated as the category evolved and applicable, relevant regulatory frameworks changed.</p>	<p>The Audit Committee reviewed management's revised judgements on inventory valuations reflecting the transitional phase of the NGP category post the strategic review.</p> <p>These judgements included additional write-down of slow moving devices and e-vape pods due to a change in shelf-life guidance, withdrawal from certain markets and cancelled launches in other markets.</p> <p>The Audit Committee considered details of the strategic review, management's provisioning calculations and the opinion of the external auditor in forming its view that the level of provisioning for NGP inventory is sufficient.</p>
The sale of the Premium Cigar Division	<p>The sale of the Premium Cigar Division completed on 29 October 2020. This was a significant transaction for the Group with a high degree of complexity from a financial reporting perspective.</p>	<p>The ongoing disposal of the Premium Cigar Division led to the continued reclassification of certain assets of the business under the categories "current assets / current liabilities held for disposal" which were previously disclosed in the Group's 2020 financial statements. The completion of the disposal resulted in an impairment of goodwill and intangibles in relation to the Premium Cigar Division, with the net assets being written down to the amount of the expected sales proceeds.</p> <p>On completion of the disposal a reversal of foreign exchange movements was taken through reserves from the time the original acquisition of the Premium Cigar Division took place, recognising those historic gains within the profit and loss account.</p> <p>The Audit Committee has reviewed the profit recorded on completion of the disposal, including the amount of foreign exchange gains recycled from reserves, and is satisfied that any associated judgements are reasonable and accurately reflected in the accounts, a position supported by the external auditor.</p> <p>In addition, the Committee reviewed the mechanism for sale proceeds being received which included elements of deferred consideration and was satisfied that these were fully recoverable given a review of both the short-term tenure and the level of security attached to it. Any deferred consideration amounts were disclosed as such in the 2021 financial statements.</p>

Focus area	Why this area is significant	How we as an Audit Committee addressed this area
Goodwill and intangible asset impairment reviews See note 12 to the financial statements for further information.	<p>Goodwill and intangible assets form a major part of the Group's balance sheet and their current valuations must be supported by future prospects.</p>	<p>The Audit Committee has reviewed cash forecasts for the Cash Generating Unit Groupings (CGUGs) that are used to support the Group's goodwill and intangible assets balances. Within this review the potential impacts of climate change were considered. Following these reviews it was concluded that there is significant headroom from the discounted cash flows for each CGUG above the valuation of the goodwill allocated to it.</p> <p>The Audit Committee also considered detailed reporting from, and held discussions with, the external auditor. The Audit Committee concluded that there was no requirement to impair goodwill and intangibles outside of those NGP assets previously identified, and that the disclosure of sensitivities was appropriate and on this basis approved the note disclosure in the financial statements.</p>
Taxation See notes 8 and 23 to the financial statements for further information.	<p>The Group is subject to taxation in a number of international jurisdictions, requiring significant management judgement in relation to effective tax rates, tax compliance and the reasonableness of tax provisions which could materially affect the Group's reported results.</p> <p>The Group is subject to periodic challenges by local tax authorities on a range of matters and there are uncertain tax positions in relation to three principal matters: transfer pricing audits in Germany, France and the UK; a French Tax Authority challenge in respect of an intra-Group disposal; and the EU Commission's challenge of the UK Controlled Foreign Company (CFC) regime.</p>	<p>The Audit Committee received a detailed update from management at each Committee meeting on the status of ongoing enquiries and tax audits with local authorities; the Group's effective tax rate for the current year; and the level of provision for known and potential liabilities including the third party counsel received in developing estimates. In addition, the Audit Committee discussed material positions with the external auditor in support of developing an independent perspective on the positions presented.</p> <p>The Committee continued to receive specific progress reports on UK CFC, French tax litigation and the status of the transfer pricing audits and in light of these considered the reasonableness of provisions and reporting disclosures.</p> <p>The Committee continued to consider the appropriateness of items treated as adjusting and concluded that the items satisfied adjusting item criteria on the basis of materiality and nature.</p> <p>The Audit Committee reviewed the status of each material tax judgement, including a range of possible outcomes, noted that independent third-party support had been obtained for each judgement and agreed that the level of tax provisions and disclosures was appropriate.</p> <p>UK tax law requires the Group to re-publish its annual Tax Strategy in relation to UK tax on its website. In May 2021 the Tax Strategy was updated to reflect the strategy applying to both UK and international taxes. The Committee reviewed the Group's Tax Strategy, noting there were no significant changes to the content apart from the above mentioned broadening of scope.</p>
Litigation matters and competition investigations	<p>The Group is exposed to litigation matters arising from claimants seeking remedies from the Company or its subsidiary companies. A small number of claims alleging smoking-related health effects remain, as well as NGP-related product litigation in the US only. One claim arising from specific US legislation (Helms-Burton) is ongoing, one element of the US State Settlement agreements remains unresolved, and the Group faces one ESG-related claim, see contingent liabilities pages 212 to 217. The Group is in the process of appealing two Decisions by national Competition Authorities in the EU and is responding to an ongoing process in another EU jurisdiction.</p>	<p>The Audit Committee considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to a number of actual and threatened legal proceedings. The Audit Committee concluded that risks in respect of the material litigation matters listed above and otherwise covered in this report, along with any competition authority proceedings, were appropriately disclosed or provided for in the Group's Annual Report and Accounts.</p>

GOVERNANCE AUDIT AND INTERNAL CONTROL - CONTINUED

Focus area Going concern and viability statement	Why this area is significant The COVID-19 pandemic continued to have a material impact on the global economy. In the context of this global economic uncertainty, and the Group's revised strategy, the Directors are required to consider whether it is appropriate to prepare the financial statements on a going concern basis and explain how they have assessed the prospects of the Company over a longer period.	How we as an Audit Committee addressed this area Management performed a comprehensive series of stress tests to confirm that the going concern basis and viability statement remain appropriate. These tests are described in the going concern statement on page 92. The tests involved the stress testing of the resilience of the Group to certain changes in trading conditions that may come about as a result of the COVID-19 pandemic, as well as realisation of other key risks, including climate change. The Audit Committee reviewed these tests on operating cash flows, the experiences through the first year of the pandemic, the ongoing resilience of demand and supply and disposal proceeds from the sale of the Premium Clear business. In addition, the Committee noted the Group's ability to raise euro 1 billion backed senior unsecured notes, offered by Imperial Brands Finance Netherlands B.V. and unconditionally and irrevocably guaranteed by Imperial Brands PLC. Together, these points allowed the Audit Committee to form an opinion as to the ability of the Group to remain a going concern from the date of this Report through to 31 March 2023 and make its recommendation to the Board. In addition, the Audit Committee also reviewed management's view of the Group's ability to remain viable, for the agreed three year period, following the forecast realisation of a number of key risks, including the possible impacts of climate change, and concluded that it is appropriate to sign off the Group's viability statement.
Revenue recognition	There is a risk that revenue could be overstated through the inclusion of sales which are not in compliance with the Group's revenue recognition policy. Additionally, the COVID-19 pandemic continues to impact the credit risk profile of a number of the Group's customers, increasing the risk that trade debtor balances may be overstated through customer default.	Discussions were held with management and the external auditor which satisfied the Audit Committee that the Group's criteria for revenue recognition continued to be appropriate and that the central monitoring of trade weight at period ends ensured any material breaches to the Group's revenue recognition policy would be both detected and reported to the Committee and where applicable disclosed externally. No breaches were found during the year. The Audit Committee continued to monitor the impact the COVID-19 pandemic had on certain categories of customer; management's process for monitoring credit risk and ensuring the Group could react and respond appropriately. The Audit Committee is satisfied that the level of trade debt has been appropriately valued and that any potential bad debt has been adequately provided for.
Fair, balanced and understandable	The Board is required to state that the Group's external reporting is fair, balanced and understandable. The Audit Committee is requested by the Board to provide advice to support the assertion.	The Audit Committee received a report from management summarising the processes that had been undertaken to ensure that the Group's external reporting is fair, balanced and understandable. This included, but was not limited to, the following: (i) a full document review by the Disclosure Committee; (ii) engagement of a cross-functional group of internal and external subject matter experts and content owners in the preparation and review of materials, including the E.T. Group Corporate Communications, Group Finance, Internal Audit, Group Legal, Investor Relations and Company Secretary; (iii) input and advice from appropriate external advisers, including the Company's brokers and external audit; challenge and scrutiny; (iv) regular research to identify emerging practice and guidance from relevant regulatory bodies; and (v) regular meetings involving the key contributors to the document, during which specific consideration was given to the fair, balanced and understandable assertion. After consideration of the Annual Report against these criteria the Audit Committee recommended to the Board, which accepted the recommendation that, taken as a whole, the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

Assessing and managing the risks faced by the Group is fundamental to achieving our strategic objectives, safeguarding our shareholders' interests and protecting the Group from reputational or legal challenges. This is reflected in our risk management framework, which ensures significant risks are identified, managed and monitored.

In accordance with the Code, the Board has overall responsibility for setting the Group's risk appetite, with accountability for maintaining effective risk management and internal control systems then being delegated to the Audit Committee.

The Group's risk management approach is described in the Principal Risks and Uncertainties section on pages 80 to 93 and is designed to manage, rather than eliminate, the significant risks the Group may face. Consequently, our internal controls can only provide reasonable, and not absolute, assurance over our principal risks.

During the year the Board considered the Group's bottom-up risk assessment which included consideration of emerging risks identified as: failure to successfully manage regulatory change; failure to effectively manage tax positions; and reporting and product supply.

Monitoring the effectiveness of risk management

The Audit Committee is responsible for approving the risk management approach on behalf of the Board, and for oversight of its ongoing effectiveness.

The Board and Audit Committee received regular updates throughout the year on the continued development of our risk management and internal control systems as well as on the results of risk assessments and internal control effectiveness assessments.

The Audit Committee has been informed of, and looked at, all significant whistleblowing reports and reported frauds in the year, and is comfortable that none of these gave rise to evidence that there have been instances of non-compliance with relevant laws and regulations.

Throughout the course of the financial year, the Audit Committee has invited *first line functions* to present on their respective risk management approaches to the risks overseen. This direct dialogue with the Audit Committee provides further assurance to the Audit Committee regarding the effective management of significant risks to the Group.

Reporting provided to the Audit Committee enables the review and monitoring of the effectiveness of our risk management and internal control systems. The Audit Committee has considered and confirmed to the Board that this is in accordance with the recommendations of the Code and that such systems were in place throughout the year and up to the date of the approval of the financial statements.

INTERNAL AUDIT

Internal Audit (IA) is responsible for providing independent and objective assurance on the adequacy and effectiveness of the risk management and internal controls framework.

The Audit Committee reviewed the IA plan for the year and agreed the budget and resourcing requirements. The Audit Committee reviewed reports from IA at each Audit Committee meeting to monitor the effectiveness of the control framework and considered the effectiveness and results of the audits undertaken by IA and monitored management responses to the audit matters raised. The Audit Committee also met independently with the Director of Assurance and Risk to discuss additional insights.

During the year IA performed a risk-based audit programme aligned to the Group's strategic priorities, resulting in relevant recommendations and insights to further strengthen the Group's control framework. All audit work was conducted remotely.

The Audit Committee reviewed the effectiveness of IA primarily through internal surveys and KPI reporting.

The Audit Committee has reviewed the FY22 IA plan, including its scope and extent, and confirmed appropriate resources exist to deliver the plan.

EXTERNAL AUDIT

The Audit Committee is responsible for oversight of EY as the Group's external auditor, agreeing its audit strategy and related work plan, as well as approving its fees. At the Committee's February 2021 meeting, EY set out its external audit plan for the year, which built on its experience from its first audit, EY's continued focus on audit quality and the feedback it received from management, the Board and the Committee. EY provided the Committee with an overview of its evolving audit strategy, tailored to the Group, including its audit risk assessment, Group audit materiality and scope, and the key areas of its proposed audit approach.

The successful transition of auditor, including consideration of its feedback from its first full year audit, including its management letter, and half-year review, was a key area of focus for the Committee. EY also provided feedback to relevant Group and local management in a number of debrief sessions.

The Audit Engagement Letter detailing the provision of statutory audit and half-year review services was both considered and approved.

The Committee has had regular private meetings with EY and is satisfied that it has been given full access and complete transparency by management throughout the year.

GOVERNANCE AUDIT AND INTERNAL CONTROL - CONTINUED

Independence of our external auditors

As part of the continual requirement to ensure the independence and objectivity of EY as our external auditor, the Audit Committee maintains and regularly reviews our Auditor Independence Policy. This policy provides clear definitions of services that the external auditors may and may not provide as determined by the FRC's Revised Ethical Standard published in December 2019, a copy of which can be found on our website.

Our Auditor Independence Policy requires that the Group Audit Partner rotates after a maximum of five years (seven years for subsidiary companies). Andrew Walton, our signing audit partner, has just completed his second year. The policy states that EY may only provide non-audit services where those services do not conflict with its independence. It also establishes a formal authorisation process, including the tendering for individual non-audit services expected to generate fees in excess of a specified threshold, and prior approval by the Audit Committee for allowable non-audit work that EY may perform. To improve governance and oversight, during the year the Committee reviewed this threshold and reduced it from £500,000 to £100,000. Guidelines for the recruitment of employees or former employees of EY, and for the recruitment of our employees by EY, are contained in the policy.

During the year EY undertook limited non-audit work all of which was assurance or attestation related. This non-audit work was awarded to EY due to its prior knowledge of the Group and it being deemed best placed to provide effectively the services required. In the current year, non-audit fees were 5 per cent (2020: 3 per cent) of total audit fees (see note 4). EY did not undertake any advisory or consultancy work. Following the auditor independence reviews during the year, the Audit Committee concluded that the level of non-audit

fees is appropriate in the light of the above activities and the Audit Committee does not believe that the objectivity of the external audit has been impaired as a result of this non-audit work.

To ensure compliance with this policy, during the year the Audit Committee carried out two auditor independence reviews, including consideration of the remuneration received by EY for audit services, audit-related services and non-audit work. The Audit Committee also considered reports by both management and EY, which did not raise any concerns in respect of EY's independence, and confirmed that EY maintains appropriate internal safeguards to ensure its independence and objectivity. The outcome of these reviews was that performance of the relevant non-audit work by EY was in compliance with the policy and was the most cost-effective way of conducting our business. No conflicts of interest were found to exist between such audit and non-audit work. The Audit Committee therefore confirmed that the Company and Group continue to receive an independent audit service.

Audit quality

The Board and Audit Committee place great importance on ensuring that the Group receives a high-standard and effective external audit. The key tool in assessing the performance of our external auditor is an audit effectiveness questionnaire. The questionnaire covers the audit scope, planning, quality and delivery, challenge and communication, and independence, and is completed by members of the Audit Committee, Logista's Audit Committee, senior managers and finance executives from across the Group. Responses indicated that, in its first year, there was a perception that EY had delivered a high-quality and effective audit, with

no pervasive Group-wide concerns identified. Based on its consideration of the responses, together with its own ongoing assessment, for example through the quality of EY's reports to the Audit Committee and its interaction with the Group Audit Partner, the Audit Committee remains satisfied with the efficiency and effectiveness of the audit.

The Audit Committee noted that the FRC Audit Quality review team did not select our FY20 accounts for review. The Committee also noted that the FRC rated the majority of audits carried out by EY as either good or requiring only limited improvements.

Audit tender

The external audit was last tendered in 2019, with EY being awarded the audit in February 2019 with a 1 October 2019 start date. The next time the audit will be tendered will likely be in 2029, as required by regulation. The Committee continues to review the independence and the quality of the external audit to assess if a tender should be undertaken in advance of the regulatory requirement.

The Audit Committee recommended to the Board that EY should be reappointed as external auditor at the next AGM.

Audit fees

In the current year audit fees were £7.5 million (2020: £7.0 million) (see note 4).

Statement of auditors' responsibilities

EY is responsible for forming an independent opinion on the financial statements of the Group as a whole and on the financial statements of Imperial Brands PLC as presented by the Directors. In addition, it also reports on other elements of the Annual Report as required by legislation or regulation and reports its opinion to members. Further details of EY's opinions start on page 148.

Auditors and disclosure of information to auditors

Each of the Directors in office at the date of approval of this Annual Report confirms that:

- so far as they are aware, there is no relevant audit information (that is, information needed by EY in connection with preparing its report) of which EY is unaware; and
- each has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish EY is aware of that information.



JON STANTON
CHAIR OF THE AUDIT COMMITTEE

ANNUAL STATEMENT FROM REMUNERATION COMMITTEE CHAIR

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SUE CLARK
CHAIR OF THE REMUNERATION COMMITTEE

MEMBERSHIP AND MEETING ATTENDANCE

Members	12/11/2020	02/02/2021	11/05/2021	09/09/2021
Sue Clark (Chair)	✓	✓	✓	✓
Thérèse Esperdy	✓	✓	✓	✓
Bob Kunze-Concewitz	✓	✓	✓	✓
Steven Stanbrook	✓	✓	✓	✓
Jon Stanton	✓	✓	✓	✓

KEY SECTIONS OF THIS REPORT ARE AS FOLLOWS:

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Focus in 2021

- Approval of the Directors' Remuneration Policy.
- Understanding and responding to investors' concerns about the new CEO's pay.
- Ensuring remuneration supports the implementation of the Company's revised strategy.
- Attracting the best global talent to the senior leadership team.

Looking ahead to 2022

- Further developing the link between ESG and remuneration.
- Reward strategy for the retention of key talent within the business in a competitive global market place.
- Reviewing the Remuneration Consultants advising the Committee.

DEAR SHAREHOLDER

The last year has been challenging for businesses across the world. The pandemic has continued to disrupt customer and consumer behaviours and imposed very real stresses on supply chains around the globe. The new senior leadership team, led by Stefan, has responded with tenacity, speed and agility to deliver a solid financial performance while launching a new purpose and strategy to transform the business and unlock value.

As discussed throughout the Annual Report and Accounts, shortly after Stefan joined as Chief Executive Officer (CEO) last summer, he began a comprehensive strategic review of the Group and unveiled the new business strategy at our Capital Markets Day in January 2021. The aim is to transform the business over the next five years with consumers at the centre of everything we do.

The Remuneration Committee (the Committee) took time to consider the new strategy to satisfy ourselves that the new Remuneration Policy provides the right incentives to drive outstanding delivery against the key pillars.

We also worked to support the new CEO in his efforts to attract the best global talent to his new senior leadership team. He has assembled an outstanding group which blends consumer expertise with deep tobacco knowledge.

During the year the Committee also focused on securing support for, and implementing, the new remuneration policy, both listening and responding to our investors' concerns.

The first year of our new five-year strategy "Our Transformation to Unlock Value"

Strengthening the leadership team has been a key priority for Stefan, and during the year the capability and diversity of the Executive Leadership Team have been significantly enhanced. As a direct result of Stefan's leadership and experience in the consumer goods sector, Imperial Brands has built a new senior

MEETINGS HELD IN FY21

In FY21, the Committee met on five occasions and the table below summarises the matters discussed:

	November 2020	February 2021 (two meetings)	May 2021	September 2021
Review of Executive Directors' remuneration dashboards	X			
Approval of FY20 Annual Bonus out-turn including discussion on using discretion to reduce formulaic achievement	X			
Approval of 2018-2020 LTIP out-turn	X			
Approval of FY21 Annual Bonus metrics and weightings	X			
Approval of FY21 LTIP metrics and weightings	X			
Approval of DRR	X			
Review of CEO pay ratio	X			
Approval of vesting of Share Matching Scheme and Bonus Matching Plan for senior management and FY21 grant	X			
Approval of operation of Discretionary Share Plan and Sharesave for FY21	X			
Approval of share plan rules	X			
Approval of FY21 LTIP targets		X		
Approval of FY21 Annual Bonus ranges		X		
Review of FY21 bonus plan design for Global Grades 1-7		X		
Approval of amendments to share plan rules			X	
Best practice review of DRR			X	
Update on shareholder engagement		X	X	
Consideration of new CFO remuneration		X		
Discussion on ESG measures and remuneration			X	
Approval of shareholding policy for Executive Leadership Team			X	
Update on corporate governance developments and market trends			X	X
Review of forecasted Annual Bonus and LTIP out-turns			X	X
Discussion on FY22 Annual Bonus plan and LTIP metrics				X
Approval of base salaries for Executive Leadership Team and Chair's fee				X
Review of the Committee's terms of reference				X

leadership team, attracting talent from across the globe, with the appropriate skills, experience and expertise to deliver an ambitious transformation plan. Blending the strong knowledge and expertise of tobacco that exists in the business with fresh ideas from external recruits from outside tobacco has been particularly important for strengthening our focus on the consumer, enhancing our performance driven culture and introducing simplified and more efficient operations.

The Board has been very impressed by Stefan's contribution over the course of the year and the feedback from our shareholders and other key stakeholders has also been extremely positive.

The pandemic continued to affect aspects of the business in 2021 and our employees showed extreme dedication and resilience, including enabling our supply chain to operate effectively, thereby maintaining our supply to

customers and consumers. The Committee, together with the Board, would like to thank all of our colleagues who have demonstrated incredible commitment throughout another extraordinary year. During the year no employees were placed on furlough and the Group did not benefit from any Government aid.

Remuneration outcomes for FY21

Our results for the year reflect the progress made to date against this strategy. Organic adjusted operating profit at constant currency for the year was £3,664m. Cash conversion performance at 83 per cent has been very strong.

The 2021 annual bonus was based on stretching financial measures with 40 per cent based on operating profit, 20 per cent on cash conversion and 20 per cent on market share. Strategic objectives formed the remaining 20 per cent of the bonus.

Reflecting the strong performance of the business during the year, the operating profit and cash conversion measures targets were exceeded, while the threshold for market share was missed. Market share is measured using externally-verified data and stretching targets were set at the start of the year. Aggregate market share in our five key combustible markets has in recent years been declining by double-digit basis points annually and reversing this long-term trend is a key focus for the new leadership team. In FY21, priority market share decline was cut to just 2bps. However, this performance, though encouraging and a significant improvement, fell below the annual bonus threshold.

The Executive Directors performed well against their strategic objectives and, in aggregate, a bonus of between 56.1 and 64.1 per cent of maximum was earned by each of them. Further detail is shown on page 130.

GOVERNANCE REMUNERATION REPORT – CONTINUED

The Committee believes this outcome reflects fairly the performance of the business during the year and the strong base for growth Stefan has created since joining the business last year. After two consecutive years of applying downward discretion on the outcome of the short-term incentive, no discretion has been applied by the Committee this year.

The LTIP award due to vest in February 2022 will vest in part resulting in 15.92 per cent of the total award vesting. Neither of the current Executive Directors was with the Company when the LTIP award was granted.

Understanding investors' views – what we have done since the 2021 Annual General Meeting (AGM)

We are very grateful for the strong support we received for the Directors' Remuneration Policy (95.28 per cent) at the 2021 AGM. However, the level of support for the 2020 DRR was disappointing. We engaged with shareholders both before and after the AGM and reflected on their views regarding the salary level of the new CEO and the way it was disclosed in the DRR, both of which impacted on the outcome of the vote. Their input has resulted in a number of actions taken by the Committee:

- Reduced on a one-off basis the CEO's 2021 long-term incentive award by 10 per cent to 315 per cent of salary.
- Identified opportunities in the DRR to enhance the messaging and transparency, such as an improved Remuneration at a Glance section.
- Disclosed our new CFO's remuneration arrangements on the announcement of his appointment and invited investors to give us their views.

Board changes

Lukas Paravicini joined the business as Chief Financial Officer in May 2021. He is an experienced leader with impeccable finance credentials, with experience of driving transformational change and a proven track record in international consumer companies. The detail of Lukas' remuneration

– which is consistent with the Remuneration Policy – was disclosed on the announcement of his appointment in February 2021. Lukas receives an annual salary of £730,000 and a pension allowance aligned with the levels of UK employees generally of 14 per cent of salary. This compares with his predecessor's salary of £750,000 and a pension allowance supplementing his defined benefit pension of 26 per cent of salary. Lukas' salary will not be increased until, at the earliest, 1 January 2023. In setting his salary the Committee looked at both internal relativities and external benchmarking data as reference points. It also considered the skills and experience that Lukas brings which are required to fulfil the role as we implement our new strategy in an environment in the midst of great change. Lukas' base salary is between the median and the upper quartile of the FTSE 50 and at the median of the FTSE 30, and his target and maximum total remuneration are at around the median of the FTSE 50 and between the lower quartile and median of the FTSE 30. When I wrote to our largest shareholders in May, I explained that there were no LTIP arrangements to be bought out, but Imperial Brands agreed to compensate him for a guaranteed bonus he would have received from his previous employer in the amount of US\$750,000. This payment will be made in December 2021, subject to continued service, and will be disclosed in the single total figure table in next year's Annual Report. In line with the Directors' Remuneration Policy, Lukas participated in the Annual Bonus Plan up to a maximum of 200 per cent of salary (on a pro-rated basis for 2021) and received an LTIP award of shares worth up to 250 per cent of salary.

In 2020 we announced that Oliver Tant would retire once a suitable successor was found. Following Lukas' appointment and a short period of handover, Oliver stepped down from the Board on 18 May 2021 and duly retired on 4 August 2021. His retirement arrangements were disclosed in our 2020 Annual Report, made available on the website and were in line with our Directors'

Remuneration Policy in place at the time. Oliver remained eligible for a time pro rated bonus for FY21, details of which can be found on page 130. He was not granted an LTIP award in FY21, and any outstanding awards will continue to vest on their normal vesting dates, subject to their original performance conditions. Awards will be pro-rated to reflect the period of service rendered. His outstanding deferred bonus awards were released on his retirement and his FY21 bonus will be paid in cash with no deferral, in line with the previous Directors' Remuneration Policy.

Implementation for FY22

The annual salary review is effective from 1 October 2021. The salary increases awarded to employees have ranged from 2 per cent to 13.9 per cent across the markets we operate in and most increases have been in the range of 2 per cent to 3.5 per cent. In setting the salary for the CEO, the Committee took into consideration the need to balance restraint with fair reward for contribution. The Committee decided to award a salary increase of 2.5 per cent to Stefan, in the light of his strong contribution during the year. In taking this decision, the Committee was mindful of the concerns that had been raised by investors about the level of his joining salary, but also wanted to signal its confidence in a CEO who consistently exceeds expectations and has received very positive feedback from all our stakeholders including shareholders and employees. His new salary is £1,300,725. The increase places his salary at the median of the FTSE 30 and at around the upper quartile of the FTSE 50. His maximum remuneration against the FTSE 50 is between the median and the upper quartile. Against the FTSE 30 his total maximum pay is between the lower quartile and the median.

FY22 is an important year of investment as we continue to deliver on our strategy and put in place the foundations for future growth. The Committee considered carefully the annual bonus measures for 2022 and concluded that the metrics will remain the same as those for FY21: organic

adjusted operating profit at constant currency (40 per cent weighting), cash conversion (20 per cent weighting), market share growth (20 per cent weighting) and individual/strategic objectives (20 per cent weighting). The financial targets will be aligned with the guidance provided at our Capital Markets Day.

The FY22 LTIP will be granted in February 2022 and will retain the same measures as the FY21 award: organic adjusted EPS growth at constant currency (40 per cent weighting), adjusted net debt/EBITDA (20 per cent weighting), Return on Invested Capital (20 per cent weighting) and relative TSR (20 per cent weighting). The targets are detailed on page 128.

Sustainability/ESG for the future

Our environmental, social and governance (ESG) priorities reflect issues which are both important business challenges and potential opportunities to make a positive difference: consumer health, climate and energy, farmer livelihoods and welfare, human rights and waste.

During the coming year, the business will complete a review of our overall approach to ESG to ensure that this is fully aligned with our new strategy, purpose and vision. Informed by the outcomes of this review, the Committee will introduce ESG measures into our incentive plans.

The Committee is mindful of the need to ensure that these measures both have stretching targets which are appropriate for Imperial Brands and reflect the stage of the business on its ESG journey. This will be a major focus for the Committee in the coming year.

Consideration of colleagues' views

The Committee has been directly involved in the Board's work during the year on workforce engagement which is described in detail on page 103 and has been led by Steven Stanbrook who is the Workforce Engagement Director. Our new "Meet the Board" sessions are a valuable way of having open conversations with colleagues about a wide range of matters, which have included the role of the Board in decision-making, our strategy, ESG agenda, our purpose, vision and culture and diversity and inclusion. We have also explored the topic of reward, giving participants the opportunity to learn about how the Committee aligns executive reward with the wider workforce and to understand their views on reward at Imperial Brands. We also spent time answering their questions on a range of reward topics. I have been encouraged by the level of engagement and interest shown by our colleagues, and would like to thank them for their valued contribution.

Conclusion

As Imperial Brands continues to deliver on its five-year strategy and to embed its new purpose, vision and behaviours, we strongly believe that this business has great potential. In the coming year, the Committee will continue to support management in achieving their ambitious objectives, while listening closely to all our key stakeholders and acting thoughtfully on their evolving expectations. Should any shareholder wish to contact me or my Committee members, please in the first instance write to John Downing, Company Secretary at IR@impbrands.com. We hope to have your support at the upcoming AGM.



SUE CLARK
CHAIR OF THE REMUNERATION
COMMITTEE

REMUNERATION AT A GLANCE

OUR EXECUTIVE PAY PRINCIPLES

- To attract and retain the very best global talent
- To reward executives well for maximising shareholder returns sustainably and delivering long-term quality growth that benefits all our stakeholders
- To motivate executives to consistently perform to the best of their ability
- To reinforce the behaviours that support our values
- To align executive reward with the experience of our shareholders through encouraging share ownership and an "ownership" mindset
- To balance restraint with fair reward for contribution, in the way we reward executives as we do for the wider workforce

OUR APPROACH TO REWARDING EXECUTIVE DIRECTORS IN 2022

Our strategic priorities



Measuring performance

Annual Bonus:

Organic adjusted operating profit growth at constant currency (40%)
Cash conversion (20%)
Market share growth (20%)
Strategic/individual (20%)

LTIP:

Organic adjusted EPS growth at constant currency (40%)
Adjusted net debt/EBITDA (20%)
Return on Invested Capital (ROIC) (20%)
Relative TSR (20%)

EXECUTIVE DIRECTORS' VARIABLE REMUNERATION OUTCOMES FOR 2021

		Maximum % of bonus/LTIP	Out-turn as a % of maximum bonus	% of weighting achieved
Annual Bonus	Organic adjusted operating profit growth at constant currency	40%	29.3%	73.3%
	Cash conversion	20%	16.8%	84.0%
	Market share growth	20%	0%	0%
	Strategic/individual – Stefan Bomhard	20%	18.0%	90%
	Strategic/individual – Lukas Paravicini	20%	12.0%	60%
Long-Term Incentive Plan¹	Organic adjusted EPS growth at constant currency	40%	0%	0%
	Organic adjusted Tobacco Net Revenue Growth at constant currency	20%	15.9%	79.6%
	Organic adjusted NGP Net Revenue Growth at constant currency	20%	0%	0%
	Relative TSR	20%	0%	0%

1. In respect of Oliver Tant only. No serving Director has received an award under this LTIP grant.

TOTAL SINGLE FIGURE IN 2021 (£,000)

Stefan Bomhard	43%	47%	10%
Lukas Paravicini	50%	50%	
Oliver Tant	47%	42%	11%

○ Fixed pay ○ Annual Bonus ○ LTIP

	Stefan Bomhard	Lukas Paravicini ²
Base salary	1,269	304
Benefits and pension	194	49
Total fixed pay	1,463	353
Annual Bonus	1,627	353
LTIP	331	0
Total remuneration	3,421	706
Total remuneration excluding buyout ¹	3,090	N/A

1. Buyout relates to recruitment award as detailed on p131 and is shown as LTIP in the graph opposite.

2. Reflects the CFO's remuneration from his date of joining.

DIRECTORS' REMUNERATION POLICY (SUMMARY)

There are no changes proposed to our Directors' Remuneration Policy approved by shareholders at our AGM held on 3 February 2021, which is intended to be in place for three years, and a summary of which is set out below. It does not replace or override the full approved policy, which is available on our website within the 2020 Annual Report and Accounts.

Element	Purpose	Operation	Maximum opportunity
Salary	Attract and retain high-performing individuals, reflecting market value of the role and the Executive's skills, experience and performance.	Reviewed, but not necessarily increased, annually by the Committee taking into account Company performance as well as each Executive Director's performance together with changes in role and responsibility.	Whilst there is no maximum salary or maximum increase in salary, the Committee would only set a salary which exceeded the top quartile of salaries of the comparator group in unforeseen and exceptional circumstances.
	The Committee considers pay data for UK listed companies closest to the Company by FTSE ranking (and excluding those in the financial services sector). These comparators serve to define a "paying field" within which an individual's reward needs to be positioned. In determining individual remuneration, the primary factors taken into account are individual performance, the scale of the challenges intrinsic to that individual's role, changes in role, their ability and experience. The Committee also considers general increases for the wider workforce, with a focus on increases in the country in which the Executive Director is based.		
Pension	Provision of market competitive pension aligned to workforce.	Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK (the Fund). Executive Directors are offered membership of the defined contribution section. Executives have the option to receive a cash supplement in lieu of membership of the Fund, or in lieu of accrual on pensionable salary above the Fund's earnings cap, or in lieu of future service accrual.	Executive Directors receive a workforce aligned pension rate (currently 14 per cent of salary).
	Competitive benefits taking into account market value of role and benefits across the workforce.	The rules of the Fund detail the pension benefits which members can receive on retirement, death or leaving service. The Committee may amend the form of any Executive Directors' pension arrangements in response to changes in pensions legislation or similar developments, so long as any amendment does not increase the cost to the Company of an Executive Directors' pension provision.	The level of benefit provision is fixed although the value may vary depending on the cost of providing such provisions.
Benefits	Benefits include provision of a company car (or cash allowance in lieu), health insurance, life insurance and income protection insurance which are provided directly or through the Company's pension scheme. Other benefits, including expatriate or relocation arrangements, may also be provided on the basis that they are also offered more widely across the Company or are necessary in order to be competitive locally.	Reasonable business-related expenses will be reimbursed including any consequential tax arising.	
Annual Bonus Plan	Incentivise delivery of Group strategic objectives and enhance performance, including against the indicators we use to measure our performance.	The annual bonus will be subject to the relevant performance measures set by the Committee usually at the start of each year to reflect the Group's KPIs at that time. The measures may be a balance of financial and non-financial, but with the expectation that the majority of the annual bonus will be subject to quantifiable financial measures.	200 per cent of base salary or such lower sum as determined by the Committee.

GOVERNANCE REMUNERATION REPORT – CONTINUED

Element	Purpose	Operation	Maximum opportunity
Annual Bonus Plan – continued		<p>Performance below the threshold results in zero payment. Payments rise from zero to 100 per cent of the maximum opportunity for levels of performance between the threshold and maximum targets.</p> <p>Half of any Annual Bonus earned is deferred into an award over shares which vests after a minimum of three years, with the other half paid in cash. These awards are forfeitable if the Executive Director resigns voluntarily or is dismissed for cause.</p> <p>Dividend roll-up may apply to any element of an annual bonus deferred into an award over shares. Any such dividend roll-up may be paid in additional shares (or, exceptionally, cash), and may assume dividend reinvestment.</p> <p>Malus and clawback provisions are in place. The deferred shares are not subject to performance conditions.</p>	
Long-Term Incentive Plan	<p>Incentivise long-term Group performance in line with the Group's strategic objectives, including against the indicators we use to measure our performance and long-term shareholder returns.</p> <p>Align Executive Directors' interests with those of shareholders.</p>	<p>Awards have a performance period normally of three financial years starting at the beginning of the financial year in which the award is made. Performance measures may include financial, non-financial or value creation (e.g. TSR) conditions as determined by the Committee normally before each grant to align with the strategic priorities of the business at that time. In normal circumstances, at least 70 per cent of the LTIP award will be subject to financial and/or value creation measures.</p> <p>Malus and clawback provisions are in place.</p> <p><i>Executive Directors are ordinarily required to retain the net-of-tax number of vested LTIP award shares for a period of two years after vesting.</i></p>	<p>CEO: 350 per cent of base salary. Other Executive Directors: 250 per cent of base salary or such lower sum as determined by the Committee.</p> <p>LTIP awards may include additional shares (or, exceptionally, cash) equivalent to the value of the dividend roll-up, and which may assume dividend reinvestment.</p>
All-employee arrangements	Provision of market-competitive arrangements aligned to workforce.	<p>Executive Directors may participate in any all-employee arrangements established and operated by the Company, on the same basis as other Group employees.</p> <p>The Company currently operates a savings-related option plan for the benefit of its worldwide employees, and in which Executive Directors are eligible to participate.</p>	In accordance with the limits applicable to the relevant all-employee arrangements.
Shareholding guideline	Align Executive Directors' interests with long-term interests of shareholders.	Executive Directors are expected to build a holding in the Company's shares to a minimum value broadly equivalent to 300 per cent of gross base salary over a five year period from date of appointment in role. For Executive Directors there is an additional requirement to hold shares after cessation of employment. The requirement is to hold shares to the value of the shareholding guideline (i.e. 300 per cent of salary or the existing shareholding if lower at the time) for a period of one year, with the requirement reducing to half the shareholding guideline for the second year. Progress towards the shareholding guideline is monitored on an annual basis and the Committee will consider any necessary sanctions required for non-compliance.	No maximum holding but requirement to build to a minimum value broadly equivalent to 300 per cent of gross base salary.

EXECUTIVE DIRECTORS' SERVICE AGREEMENTS

Executive Directors	Date of contract	Expiry date	Compensation on termination following a change of control
Stefan Bornhard	31 January 2020 ¹	Terminable on 12 months' notice	No provisions
Lukas Paravicini	11 April 2021 ²	Terminable on 12 months' notice	No provisions

1. Service agreement dated 31 January 2020 with a start date of 1 July 2020.
2. Service agreement dated 11 April 2021 with a start date of 1 May 2021.

POLICY FOR THE CHAIR AND NON-EXECUTIVE DIRECTORS

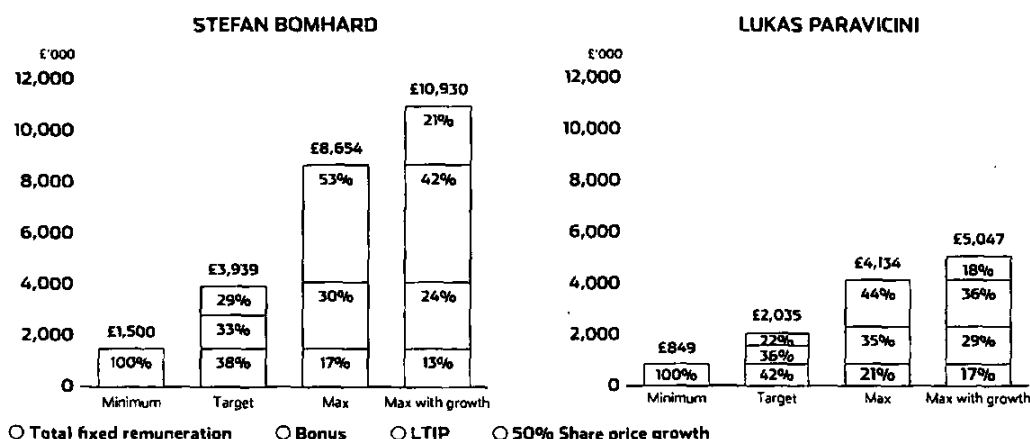
Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	Attract and retain high-performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders.	<ul style="list-style-type: none"> Reviewed, but not necessarily increased, annually by the Board. Fee increases, if applicable, are normally effective from 1 October. The Board considers fee data at comparator companies of similar scale. The Senior Independent Director, the chairs of the Audit and Remuneration Committees and the Workforce Engagement Director receive additional fees. Additional fees are paid for Remuneration and Audit Committee memberships. An allowance is paid when regular intercontinental travel is required. Higher fees may be paid to a Non-Executive Director should they be required to assume executive duties on a temporary basis. No eligibility for annual bonus, retirement benefits or to participate in the Group's employee share plans. 	<p>No prescribed maximum annual increase.</p> <p>Aggregate annual fees limited to £2.0 million by Articles of Association.</p>
Benefits	Reimbursement of business-related expenses.	<ul style="list-style-type: none"> Travel to the Company's registered office is recognised as a taxable benefit. To the extent that any other reasonable business-related expenses are recognised as a taxable benefit, these will be reimbursed at cost (including any consequential tax arising). Reasonable benefits may be provided from time to time on a case-by-case basis. 	Grossed-up costs.

CHAIR AND NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

The Chair and Non-Executive Directors do not have service agreements, but the terms of their appointment, including the time commitment expected, are recorded in letters of appointment which are available for viewing at the Company's registered office during normal business hours and both prior to and at the AGM.

In line with the Board's annual review policy, the Chair's and Non-Executive Directors' terms of appointment were reviewed and confirmed by the Board on 2 February 2021. There are no provisions regarding notice periods in their letters of appointment, which state that the Chair and Non-Executive Directors will only receive payment until the date their appointment ends and, therefore, no compensation is payable on termination. Under the terms of the Company's Articles of Association, all Non-Executive Directors are subject to annual re-election by shareholders.

PAY ARRANGEMENTS FOR 2022



The table below summarises how we intend to apply the main areas of our Directors' Remuneration Policy for FY22.

Element	Implementation
Salary Attract and retain high-performing individuals, reflecting market value of the role and the Executive Director's skills, experience and performance.	The CEO's salary will increase by 2.5% on 1 October 2021 to £1,300,725. The CFO's salary will not be increased from £730,000 before 1 January 2023.
Annual Bonus Maximum opportunity is 200% of base salary. 50% deferred into an award of shares for three years, which is forfeitable if the Executive Director resigns voluntarily or is dismissed for cause. Malus and clawback provisions will apply.	No change to maximum opportunity. Measures and weightings: <ul style="list-style-type: none"> Organic adjusted operating profit growth at constant currency 40% Cash conversion 20% Market share growth 20% Strategic/individual 20% Underlying targets are commercially sensitive and will be fully disclosed in next year's Annual Report.
LTIP Maximum award size: CEO: 350% of base salary, CFO 250% of base salary. Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made. Performance measures may include financial, non-financial or value creation conditions. Malus and clawback provisions are in place. Executive Directors are ordinarily required to retain the net-of-tax number of vested LTIP award shares for a period of two years after vesting.	No change to maximum opportunity Measures weightings and targets: <ul style="list-style-type: none"> Organic adjusted EPS growth at constant currency 40%. Cut in 3.7% – max 5.6% Adjusted net debt/EBITDA 20%. Cut in 1.46x – max 1.28x Return on Invested Capital (ROIC) 20%. Cut in 18.7% – max 19.5% Relative TSR against a group of FMCG companies 20%. Cut in at median – max upper quartile Cut in would deliver a 25% pay out with a straight line pro rata to 100% payout at maximum. Should the Company be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time pro rata basis subject to the achievement of the applicable performance criteria.
Chair and Non-Executive Directors' Fees Attract and retain high performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders.	With effect from 1 October 2021: <ul style="list-style-type: none"> Chair's fee will increase by 2.5 per cent from £605,000 to £620,125 per annum NED base fee will increase by approximately 2.5 per cent from £79,500 to £81,500 per annum Senior Independent Director and Chairs of the Remuneration and Audit Committees' fees will increase by approximately 2.5 per cent from £26,500 to £27,000 per annum Committee membership and Workforce Engagement Lead fees will remain at £5,500 per annum.
Shareholding requirement Align Executive Directors' interests with long-term interests of shareholders.	300% of base salary. Requirement to hold shares after cessation of employment to the value of the shareholding guideline (i.e. 300% or the existing shareholding if lower at the time) for a period of one year, with the requirement reducing to half the shareholding guideline for the second year.

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration has been split into the following sections.

1. The remuneration earned by our Directors for the financial year ended 30 September 2021
2. Details of share awards granted, share interests held and historical CEO total single figure versus shareholder returns
3. How Directors' remuneration compares with employee pay including the CEO pay ratio, our relative spend on pay and current dilution
4. Remuneration Committee membership and work undertaken during the year, details of advice received and consideration of shareholders' views

1. REMUNERATION EARNED BY OUR DIRECTORS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2021

Single Total Figure of Remuneration for each Director (Audited)

Executive Directors	Year	Salary £'000	Benefits £'000 ¹	Pension £'000 ²	Total fixed pay	Annual bonus £'000 ^{3,4}	LTIP £'000 ⁵	Total variable pay	Total pay	Effect of share price on value of LTIP vesting
Stefan Bomhard	2021	1,269	17	177	1,463	1,627	331	1,958	3,421	
	2020	800	5	44	850	254	–	254	1,104	–
Lukas Paravicini ⁶	2021	304	6	43	353	353	–	353	706	–
	2020	–	–	–	–	–	–	–	–	–
Oliver Tant ⁶	2021	469	10	122	601	526	137	663	1,264	(133)
	2020	750	17	195	962	600	171	771	1,733	(123)
Former Directors ⁷	2020	1,800	31	171	2,002	598	0	598	2,600	–
Total	2021	2,042	33	342	2,417	2,506	468	2,974	5,391	
Total	2020	3,350	54	410	3,814	1,452	171	1,623	5,437	

Notes

1. Each individual received an annual car allowance of £15,000 and health insurance.
2. Each individual received a cash supplement in lieu of membership of the pension fund. This equated to 14% of salary for Stefan Bomhard and Lukas Paravicini, and 26% of salary for Oliver Tant.
3. Annual bonus for the year ended 30 September 2021. Half of the net value is deferred into shares for three years; no further performance conditions apply.
4. LTIP represents the value of the FY19-21 LTIP awards whose performance period ended 30 September 2021. As these awards do not vest until February 2022 they are based on a share price of £15.58, being the three-month average to 30 September 2021 and an estimate of dividend roll-up based on announced dividend payable on 31 December 2021. For Stefan Bomhard, LTIP represents the first tranche of the Recruitment Award which vested on 12 April 2021 and dividend roll-up based on a share price of £15.535. The 2020 estimated figure has been restated to reflect the actual share price at the date of vesting and the actual dividend roll up. No Sharesave options were exercised during the year.
5. Lukas Paravicini commenced employment and joined the Board on 1 May 2021.
6. Oliver Tant stepped down from the Board on 18 May 2021. The figures in the above table relate to the period he was a member of the Board. He continued to receive his salary and benefits in respect of the period up to 4 August 2021 in the usual way (value of £362,920). The bonus relating to his period as Executive Director has been included in the table above and, in accordance with the applicable Directors' Remuneration Policy at the time of announcement of his retirement, was paid wholly in cash. The time pro rated bonus for the full financial year has been disclosed on page 130.
7. Includes interim Executive Directors.

Non-Executive Directors	Fees £'000		Taxable benefits ⁸		Total	
	2021	2020	2021	2020	2021	2020
Thérèse Esperdy	605	485	–	27	605	512
Sue Clark ⁹	138	129	–	1	138	130
Alan Johnson ¹⁰	64	–	–	–	64	–
Bob Kunze-Concewitz ¹¹	78	–	–	–	78	–
Simon Langelier	85	85	–	3	85	88
Pierre-Jean Sivignon ¹²	58	21	–	–	58	21
Steven Stanbrook ¹³	103	103	–	1	103	104
Jon Stanton ¹⁴	112	95	–	1	112	96
Former Non-Executive Directors	–	215	–	4	–	219
Total	1,243	1,133	–	37	1,243	1,170

Notes

8. Benefits in kind for Non-Executive Directors relate to the reimbursement of travelling expenses to meetings held at the Company's registered office. As a result of COVID-19 travel restrictions no meetings were held at the registered office in FY21.
9. Includes payments in respect of Senior Independent Director and Chair of the Remuneration Committee fees of £26,500 respectively per annum.
10. Alan Johnson was appointed to the Board on 1 January 2021.
11. Bob Kunze-Concewitz was appointed to the Board on 1 November 2020.
12. Pierre-Jean Sivignon stepped down from the Board on 4 June 2021.
13. Includes payment in respect of Workforce Engagement Director of £5,500 per annum and a non-European travel allowance of £12,000 in recognition of the extra time commitment required for travel.
14. Includes payment in respect of chair of the Audit Committee fees of £26,500 per annum.

The aggregate remuneration of all Executive and Non-Executive Directors under salary, fees, benefits, cash supplements in lieu of pensions, annual bonus and LTIP was £6,634k (2020: £ 6,607k).

No Director is eligible to participate in the defined benefit pension fund. Each Director eligible for membership of the defined contribution pension fund has opted to receive a cash supplement in lieu, therefore, no pension disclosure is required.

GOVERNANCE REMUNERATION REPORT – CONTINUED

Determination of 2021 Annual Bonus (Audited)

The 2021 annual bonus was based on a scorecard of measures. Details of the measures, their weightings, targets and extent of achievement rate are set out in the table below.

Measure	Weighting	Cut in	Target	Max	Achievement	Pay-out
Organic adjusted operating profit at constant currency	40%	3.3%	4.1%	6.2%	4.8%	29.3%
Cash conversion	20%	75%	80%	85%	83%	16.8%
Weighted market share	20%	17.84%	17.95%	18.02%	17.82%	0%
Strategic/individual Stefan Bomhard	20%	–	–	–	90%	18%
Strategic/individual Lukas Paravicini	20%	–	–	–	60%	12%
Strategic/individual Oliver Tant	20%	–	–	–	50%	10%
Total bonus Stefan Bomhard	100%					64.1% of max
Total bonus Lukas Paravicini	100%					58.1% of max
Total bonus Oliver Tant	100%					56.1% of max

The Committee set the same strategic goals for the Executive Directors. The assessment of performance against the goals reflects the different roles they each played and, in the cases of Lukas and Oliver, that they served for part of the year only.

Strategic/individual measures and targets	Performance assessment highlighting key achievements
<ul style="list-style-type: none"> Develop new corporate strategy and deploy in business (10%) 	<ul style="list-style-type: none"> New five-year strategic plan and clear capital allocation framework launched in January. Uniformly positive feedback from investors collected independently via a third party following Capital Markets Day. Key stakeholders including shareholders and employees aligned and supportive of new strategy. Greater focus and more rigorous performance management of top five priority markets has delivered a stabilisation of aggregate market share vs historical declines. Pilot market trials underway for heated tobacco and vapour in line with strategy. Clearer prioritisation of our broader portfolio is delivering improved results, e.g. share growth and strong financial results in Africa region.
<ul style="list-style-type: none"> Develop and deploy the new operating model (10%) 	<ul style="list-style-type: none"> Strengthened executive team in place, bringing significant blue chip FMCG experience and a positive step change in diversity (3 women/33% vs 1 in FY20 3 persons of colour/33% vs 0). Chief Consumer Office established to place the consumer at the centre of decision making and to unify the NGP organisation under single leadership. New consumer team built and organisation reconfigured to reflect strategic priorities. Restructuring proposal agreed to prioritise resources in line with the strategy and to realise savings for reinvestment. Culture change articulated through new purpose, vision and behaviours developed with colleagues.
Total payout as a % of maximum bonus <ul style="list-style-type: none"> Stefan Bomhard – 18% Lukas Paravicini – 12% Oliver Tant – 10% 	<ul style="list-style-type: none"> Stefan Bomhard – the Remuneration Committee judged Stefan's performance in his first full year as outstanding and was impressed by the quality of his results and the speed of delivery. He developed the five-year plan extraordinarily quickly as well as putting in place a highly-experienced Executive Leadership Team which is already delivering results. The performance of the share price over the year reinforced our view that an overall score of 90 per cent for this element of the bonus reflected his strategic achievements during the year. Lukas Paravicini – the Committee was mindful that Lukas, as new CFO, contributed to the strategic targets for five months of the year. His contribution during this time related to deploying and implementing the new operating model and building a new functional team and his contribution has been extremely strong. He has also helped to implement the cultural transformation of the business. Overall the Committee decided on an overall score of 60 per cent. Oliver Tant – the outgoing CFO supported the CEO and contributed to the business for almost eight months of the year. The Committee assessed his performance against the strategic goals and decided that an assessment of 50 per cent for this element of bonus was fair in the light of his performance. After he stepped down from the Board Oliver also provided handover support to Lukas.

Individual Annual Bonus payments:

	Total annual bonus £'000	
	Maximum	Actual ¹
Executive Directors		
Stefan Bomhard	£2,538	£1,627
Lukas Paravicini ²	£608	£353
Oliver Tant ²	£938	£526

Notes

- Half of the bonus will be deferred into an award of shares for both Stefan Bomhard and Lukas Paravicini. There will be no deferral into shares for Oliver Tant.
- Bonus pro-rated to reflect period of service, as a Director rendered during year. Oliver's total time pro rated bonus for the year was £631,125.

Long-Term Incentive Plan awards vesting (Audited)

Performance awards vesting in February 2022 were based on performance measured over the three-year period ended 30 September 2021. Neither of the current Executive Directors participated in this LTIP cycle. Oliver Tant who stepped off the Board on 18 May 2021 was a beneficiary.

Measure	Weighting	Target (25% vesting)	Maximum target (100% vesting)	Actual performance	Percentage of award vesting
Organic adjusted EPS growth at constant currency (average annual growth)	40%	3%	8%	(1.54)%	0%
Organic adjusted tobacco net revenue growth at constant currency (average annual growth)	20%	0%	2%	1.46%	15.92%
Organic adjusted NGP net revenue growth at constant currency (average annual growth)	20%	75%	130%	1.22%	0%
Relative TSR (return over three financial years)	20%	Median	Upper Quartile	31/37	0%
Achievement					15.92%

The TSR measure compared the Company's performance against the following companies: Altria Group, Anheuser Busch Inbev, Associated British Foods, Astra Zeneca, British American Tobacco, BT Group, Burberry Group, Carlsberg B, Carnival, Compass Group, Diageo, Experian, GlaxoSmithKline, Heineken, Intercontinental Hotels, International Consolidated Airlines, ITV, J Sainsbury, Japan Tobacco, Kingfisher, Marks & Spencer Group, Morrison Supermarkets, Next, Pearson, Pernod Ricard, Philip Morris International, Reckitt, RELX, Smith & Nephew, Tate & Lyle, Tesco, Unilever, Vodafone Group and Whitbread.

Vested awards will be subject to a two-year holding period.

Recruitment Award vesting during the year ended 30 September 2021

In July 2020, Stefan Bornhard was granted a Recruitment Award to facilitate his recruitment as CEO and to replace certain outstanding awards granted to him by his previous employer, which were forfeited when he joined the Company. Full details of the Recruitment Award were disclosed in our 2020 DRR, but in summary Stefan was granted 116,921 shares set by reference to the value of the forfeited awards (£1,793,568). To replicate the terms of the forfeited awards, the Recruitment Award was split into four tranches, vesting in April 2021 and April 2022. Vesting of each tranche of the Recruitment Award is subject to the extent to which the original performance conditions applicable to the forfeited awards are met over the original performance period. The first tranche of the Recruitment Award was capable of vesting on 10 April 2021, and the final vesting outcome was 28.5 per cent. Full details of the vesting of the forfeited award are disclosed in Inchcape Plc's Annual Report and Accounts 2020. 69,022 shares were granted under the first tranche of the Recruitment Award and the number of shares vesting (including dividend roll-up) was 21,305 at a value of £330,973.

Payments for loss of office and payments to former Directors (Audited)

Oliver Tant stepped down from the Board on 18 May 2021 and retired on 4 August 2021. He received his base salary and benefits through to his retirement date totalling £362,920.

In line with the Directors' Remuneration Policy applying at that time and as previously communicated, he remained eligible for a time pro rated bonus for FY21, subject to performance criteria set out on page 130 and pro-rated to reflect the period of service rendered. His outstanding deferred bonus awards were released on retirement in accordance with the applicable Directors' Remuneration Policy at the time of his announced retirement and he received his FY21 bonus 100 per cent in cash (the new Policy provides for the deferred part of the bonus to be delivered as conditional shares vesting after three years). He was not eligible to be granted a LTIP performance award for FY21, but his outstanding LTIP performance awards will continue to vest on their normal vesting dates and remain subject to their original performance conditions. To the extent the performance conditions are met, awards will be pro-rated to reflect the period of service rendered. This is consistent with Imperial Brands' usual approach, which is that employees who retire are treated as "good leavers".

Alison Cooper stood down from the Board on 1 February 2020 and remained on the payroll until 8 October 2020. She received base salary and contractual benefits including pension contributions paid in the normal way up to 8 October 2020 totalling £28,437, a payment of £90,000 in full and final settlement of all claims in relation to her employment, together with a reimbursement of legal fees of £10,000, and the costs of outplacement support up to a maximum of £60,000 plus VAT. She also received a repayment of £7,000 cash contributions made by her to the 2018 SAYE Share Save. Her accrued pension at the date of leaving employment was £301,811 per annum.

Matthew Phillips stood down from the Board on 1 February 2020 and remained on the payroll until 31 January 2021. He received base salary and contractual benefits including pension contributions paid in the normal way up to the end of January 2021 totalling £226,955, a payment of £90,000 in full and final settlement of all claims in relation to his employment, together with a reimbursement of legal fees of £1,500, the costs of outplacement support up to a maximum of £60,000 plus VAT and repayment of £7,500 cash contributions made by him to the 2018 SAYE Share Save. His accrued pension at the date of leaving employment was £150,790 per annum.

GOVERNANCE REMUNERATION REPORT – CONTINUED

2. DETAILS OF SHARE AWARDS GRANTED, SHARE INTERESTS HELD AND HISTORICAL CEO TOTAL SINGLE FIGURE VERSUS SHAREHOLDER RETURNS

Performance awards granted during the year (Audited)

When determining Stefan Bomhard's award, the Committee took into account the prevailing share price performance over the year and the concerns expressed by a number of shareholders about the level of his salary on appointment as CEO. He and the Committee agreed that the face value of his 2021 LTIP award should be reduced, on an exceptional one-off basis, from 350 per cent of salary to 315 per cent, a reduction of 10 per cent of the face value of the usual annual award. The number of shares under award reflects this adjustment.

The award to Lukas Paravicini of 250 per cent of base salary was made in accordance with the terms of his appointment as announced on 17 February 2021 and ensures Lukas is aligned with the Company's performance from the time of his appointment. The performance measures and performance period are identical to those awards granted to Stefan Bomhard in February 2021.

	Date of grant	Share price ¹	Number of nil-cost options	Face value	Amount of base salary	End of performance period
Stefan Bomhard	15 February 2021	£14.935	267,649	£3,997,338	315%	30 September 2023
Lukas Paravicini	19 May 2021	£16.140	113,073	£1,824,998	250%	30 September 2023

1. Valued using the closing share price the trading day prior to grant.

The targets for the above performance awards are as follows:

Measure	Weight	Minimum performance (25% vesting)	Maximum performance (100% vesting)
		Target	Target
Organic adjusted EPS growth at constant currency	40%	2%	4.8% or higher
Adjusted net debt/EBITDA (for FY23)	20%	2.00x	1.8x or lower
Return on Invested Capital (ROIC) (average annual)	20%	16.6%	17.5% or higher
Relative TSR	20%	Median	Upper quartile

Adjusted net debt/EBITDA measure – The level of the gearing criterion assumes an additional shareholder distribution will be made either via share buybacks and/or special dividends during the period in line with the Group's capital allocation policy. To the extent the shareholder distribution is increased above the assumed level during the period, there is an agreed formula to raise the gearing target accordingly so as to incentivise incremental shareholder returns during the period. Similarly, if the shareholder distribution is reduced, the target gearing will be lowered. This will reinforce alignment of this measure to the Group's capital allocation policy and shareholder value creation.

The TSR comparator group will comprise the following companies – Altria Group, Anheuser Busch Inbev, Beiersdorf, British American Tobacco, Brown-Forman, Carlsberg B, Carnival, Clorox, Constellation Brands, Diageo, Heineken, Henkel, Japan Tobacco, Kimberly-Clark, Kirin Holdings, L'Oréal, Monster Beverage, Pernod Ricard, PepsiCo, Philip Morris International, Procter & Gamble, Reckitt, Swedish Match, Uni Chalm and Unilever.

Each measure operates independently and is capable of vesting regardless of the Company's performance in respect of the other metrics. The Committee retains discretion to adjust up or down including to zero the number of shares that vest taking into account a number of factors including personal or corporate performance and circumstances that were unforeseen at the date of grant.

SHARE INTERESTS AND INCENTIVES (AUDITED)

	Shares held at 30 September 2021		Conditional awards and options held at 30 September 2021		
	Owned outright	Subject to a holding period	Awards unvested and subject to performance conditions	Options unvested and subject to continued employment	Vested but not exercised
Executive Directors					
Stefan Bomhard	3,394	4,265	685,332	687	–
Lukas Paravicini	–	–	113,073	–	–
Oliver Tant ¹	77,829	30,525	172,607	515	–
Non-Executive Directors					
Thérèse Esperdy ²	36,125	–	–	–	–
Sue Clark	6,121	–	–	–	–
Alan Johnson	263	–	–	–	–
Bob Kunze-Concewitz	50,338	–	–	–	–
Simon Langelier	25,665	–	–	–	–
Pierre-Jean Sivignon	48	–	–	–	–
Steven Stanbrook ²	19,559	–	–	–	–
Jon Stanton	2,451	–	–	–	–

1. Held at date of leaving employment.

2. Thérèse Esperdy and Steven Stanbrook hold their shares in the form of American Depositary Receipts.

There have been no changes to the above holdings since the year-end.

Our middle market share price at the close of business on 30 September 2021, being the last trading day of the financial year, was £15.585 and the range of the middle market price during the year was £12.196 to £16.74.

Full details of the Directors' share interests are available for inspection in the Register of Directors' Interests at our registered office.

EXECUTIVE SHAREHOLDINGS AND DIRECTORS' INTERESTS (AUDITED)

	Shares held at start of year	Shares held at end of year ¹	Increase in shares held during year	Value of shares held at start of year ² £'000	Value of shares held at end of year ³ £'000	Difference in value £'000	Shareholding required (% salary)	Current shareholding (% salary/fees) ³	Requirement met ^{3,4,5}
Executive Directors									
Stefan Bornhard ⁴	3,200	7,659	4,459	44	119	75	300	9	Yes
Lukas Paravicini ⁴	–	–	–	–	–	–	300	–	Yes
Oliver Tant ⁶	92,368	108,354	15,986	1,263	1,689	426	300	225	N/A
Non-Executive Directors⁷									
Thérèse Esperdy	34,033	36,125	2,092	465	563	98	–	–	N/A
Sue Clark	5,692	6,121	429	78	95	17	–	–	N/A
Alan Johnson	–	253	263	–	4	4	–	–	N/A
Bob Kunze-Concewitz	–	50,388	50,388	–	785	785	–	–	N/A
Simon Langelier	25,193	25,665	472	345	400	55	–	–	N/A
Pierre-Jean Sivignon	44	48	4	1	1	–	–	–	N/A
Steven Stanbrook	19,178	19,559	381	262	305	43	–	–	N/A
Jon Stanton	2,034	2,451	417	28	38	10	–	–	N/A

1. Or date of leaving if earlier.

2. Based on a share price of £13.675, being the closing price on 30 September 2020, and includes the value of shares owned outright and those vested but subject to a holding period, being the deferred element of the bonus.

3. Based on a share price of £15.585, being the closing price on 30 September 2021.

4. Stefan Bornhard joined the Board on 1 July 2020 and has five years to build to his shareholding requirement.

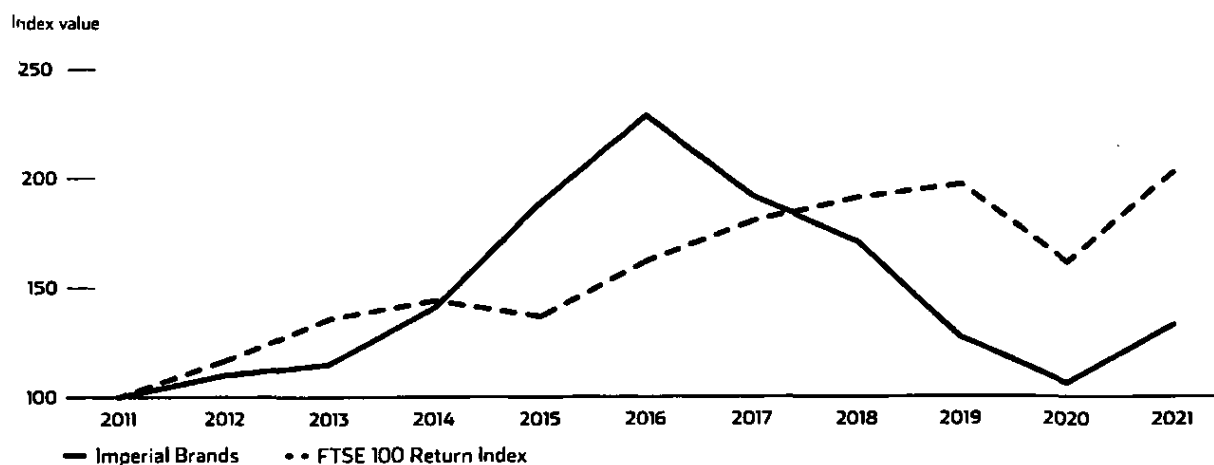
5. Lukas Paravicini joined the Board on 1 May 2021 and has five years to build to his shareholding requirement.

6. Oliver Tant retired on 18 May 2021.

7. Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in the Company's shares which they are required to retain for the duration of their appointment.

REVIEW OF PAST PERFORMANCE

The chart below shows the value of £100 invested in the Company on 1 October 2011 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year-ends to 30 September 2021. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a 10-year period.



GOVERNANCE REMUNERATION REPORT – CONTINUED

CHANGE IN CHIEF EXECUTIVE OFFICER REMUNERATION

	2021 Stefan Bornhard	2020 Stefan Bornhard	2020 Joerg Biebmick	2020 Dominic Brisby	2020 Alison Cooper	2019 Alison Cooper	2018 Alison Cooper	2017 Alison Cooper	2016 Alison Cooper	2015 Alison Cooper	2014 Alison Cooper	2013 Alison Cooper	2012 Alison Cooper ¹
Total remuneration £'000	3,421	1,104	963	943	448	2,137	3,935	4,657	5,404	3,637	2,686	2,011	2,793
Annual bonus as a percentage of maximum	64.1	40 ²	40 ²	40 ²	40 ²	31 ³	87	60	72	80	69	34	51.2
Shares vesting as a percentage of maximum	30.8 ⁴	nil	nil	nil	nil	nil	20	44.4	45.7	15.8	5.8	nil	58.0

1. Total remuneration includes value of share plans vesting that were granted prior to appointment as CEO.

2. 48.4% was the formulaic out-turn; however, the Remuneration Committee accepted the CEO's recommendation and used its discretion to reduce this to 40%.

3. 51% was the formulaic out-turn; however, the Remuneration Committee used its discretion and reduced this to 31%.

4. Vesting of recruitment award based on performance criteria of former employer.

3. HOW DIRECTORS' REMUNERATION COMPARES WITH EMPLOYEES' REMUNERATION

There is a strong alignment in how we approach pay for our Executive Directors and the wider workforce with a focus on performance-related pay and similar performance metrics in our annual bonus and LTIP. Our reward packages are designed to enable us to attract and retain the best talent, driven by market practice, skills and experience.

Executive Directors		UK employees
Increase in line with wider workforce	Salary	Average increase for FY22 – between 2.0% to 3.5%
Mix of financial/strategic measures 50% of bonus deferred into award of shares	Annual Bonus	Mix of financial/strategic measures 100% paid in cash
Performance metrics measured over 3 years 2-year holding period after vesting	LTIP	Performance metrics measured over 3 years No holding period
14% cash or contributions into Company's pension fund	Pension	The majority of UK employees receive a contribution of 14% of salary
£250 per month 3-year savings period	Sharesave	£250 per month 3-year savings period

Consideration of colleagues' views

Our colleagues are at the core of our business, and during the year the Board expanded on its listening sessions and workforce engagement which gave us an opportunity to hear feedback from colleagues on a variety of topics which included our strategy, ESG, culture and diversity and inclusion. We also explored the topic of remuneration, giving participants the opportunity to learn about how the Committee is required to align executive reward with the approach to pay for all employees, and to understand their views on reward at Imperial Brands. The level of engagement was extremely high with a constructive discussion covering:

- Selection of annual bonus and LTIP metrics, recognising the low out-turns under the LTIP over recent years and expected outcomes on pay-outs on the annual bonus.
- Consistency on annual bonus measures in recent years.
- Linking ESG targets to remuneration.
- Recognition that pay and benefits are attractive within the Company, with confidence in the leadership's ability to deliver the strategy and the results we need.

The Board is committed to continuing to listen to colleagues and we will look to hold further reward sessions in FY22.

PERCENTAGE CHANGE IN BOARD REMUNERATION

The table below shows the percentage change in the salary, benefits and annual bonus for the Directors, between FY20 and FY21, as well as the disclosure for FY20.

	Year-on-year change in pay for Directors compared with UK employees					
	2021			2020		
	Salary	Benefits	Annual Bonus	Salary	Benefits	Annual Bonus
Executive Director						
Stefan Bornhard	58.6%	183.3%	540.6%	Stefan was appointed to the Board on 1 July 2020		
Lukas Paravicini	Lukas was appointed to the Board on 1 May 2021 ¹					
Oliver Tant ²	(37.5%)	(41.2%)	(12.3%)	1.90%	6.25%	31.49%
Non-Executive Directors						
Thérèse Esperdy ³	24.7%	(100%)	N/A	353.27%	-41.30%	N/A
Sue Clark	7.0%	(100%)	N/A	55.42%	-50.00%	N/A
Alan Johnson	Alan was appointed to the Board on 1 January 2021 ¹					
Bob Kunze-Concewitz	Bob was appointed to the Board on 1 November 2020 ¹					
Simon Langelier	0.0%	(100%)	N/A	2.41%	-40.00%	N/A
Pierre-Jean Sivignon	176.2%	N/A	N/A	Pierre-Jean was appointed to the Board on 1 July 2020		
Steven Stanbrook	0.0%	(100%)	N/A	8.42%	-66.67%	N/A
Jon Stanton ⁴	17.9%	(100%)	N/A	187.88%	-5.72%	N/A
All UK employees	0.0%	2.4%	7.9%	6.69%	-5.72%	32.44%

1. A year-on-year comparison is not possible in these circumstances.
2. Oliver Tant retired from the Board on 18 May 2021.
3. Increase reflects first full year as Chair
4. Increase reflects first full year as Chair of the Audit Committee

CEO PAY RATIO

The table below shows the multiple of our CEO's pay ratio to median, lower quartile and upper quartile pay in the UK. The calculations are based on methodology Option A as defined by the regulations and calculating the pay and benefits of all UK employees on a full-time equivalent basis. Option A was chosen as it is the most robust approach. The CEO pay ratio is based on comparing the CEO's pay to that of Imperial Brands' UK-based employee population, a large proportion of whom are in sales roles. The Committee anticipates that the ratios are likely to be volatile over time, largely driven by the CEO's incentive outcomes which are dependent on Group-wide results. In light of financial performance outcomes being signed off close to the publication of the Annual Report, the annual bonus outcomes for employees other than the CEO have been calculated at target performance (60 per cent of maximum bonus opportunity), although some employees may receive a variation of this in practice. In 2020 total remuneration used to calculate the ratios was £2,585,428; and in respect of base salary only £1,299,875 was used. These were an amalgam of the incumbents who served as CEO during the year.

The pay levels shown for the percentiles show remuneration for the 12 months to 30 September 2021.

Financial year	Calculation methodology	P25 (lower quartile) x:1	P50 (median) x:1	P75 (upper quartile) x:1
2021	A	57.5	45.5	29.6
2020	A	50.2	38.7	24.4
2019	A	53.0	36.5	22.0
	Stefan Bornhard	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
Total remuneration	£3,421,078	57.5	45.5	29.6
Base salary	£1,269,000	32.3	26.3	18.6

The Committee is satisfied that the overall picture presented by the 2021 pay ratios is consistent with the reward policies for our UK employees. The Committee takes into account these ratios when making decisions around the Executive Director pay packages, and Imperial Brands takes seriously the need to ensure competitive pay packages across the organisation.

The CEO total remuneration pay ratio has increased across all percentiles, due to an increase in CEO total remuneration of 32.3 per cent. The CEO base salary ratio has remained broadly static, confirming that the variance is driven by performance-related variable pay.

The salary component for FY21 at each quartile is £39,244 (P25), £48,198 (P50) and £68,222 (P75). The equivalent total pay numbers are £59,479 (P25), £75,153 (P50) and £115,544 (P75).

GOVERNANCE REMUNERATION REPORT – CONTINUED

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividends.

£ million unless otherwise stated	2021	2020	Percentage change
Executive Directors' total remuneration ^{1,2}	5	5	(0.8)
Overall expenditure on pay ³	775	812	(4.6)
Dividend paid in the year ³	1305	1,753	(25.6)

1. Executive Directors' total remuneration is based on the total single figure for all Executive Directors and is included to provide a comparison between Executive Director and overall employee pay.
2. Excludes employer's social security costs.
3. There were no share buybacks during either FY20 or FY21.

EMPLOYEE BENEFIT TRUSTS

Our policy remains to satisfy options and awards under our employee share plans either from market purchased ordinary shares or ordinary shares held in treasury, distributed through our employee benefit trusts: the Imperial Tobacco Group PLC Employee and Executive Benefit Trust (the Executive Trust) and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the 2001 Trust) (together the Employee Benefit Trusts).

As at 30 September 2021, we held 74,289,137 ordinary shares in treasury which can be used to satisfy options and awards under our employee share plans either directly or by gifting them to the Employee Benefit Trusts.

Options and awards may also be satisfied by the issue of new ordinary shares.

Details of the ordinary shares held by the Employee Benefit Trusts are as follows:

	Balance at 01/10/2020	Acquired during year	Distributed during year	Balance at 30/09/2021	Ordinary shares under award at 30/09/2021	Surplus/ (shortfall)
Executive Trust	595,554	0	11,184	584,370	1,868,192	(1,283,822)
2001 Trust	1,507,526	0	1,135,693	371,833	7,553,912	(7,182,079)

SHARE PLAN FLOW RATES

The rules of each of the Company's share plans contain provisions limiting the grant of options and awards to shares representing no more than 10 per cent of issued share capital of the Company over a period of 10 years (or, in the case of options and awards granted under the LTIP and Deferred Share Bonus Plan, 5 per cent of issued share capital over the same 10-year period). Currently, an aggregate total of 0.9 per cent of the Company's issued share capital (including shares held in treasury) is subject to options and awards under our executive and all-employee share plans.

SUMMARY OF OPTIONS AND AWARDS GRANTED

Limit on awards	Cumulative options and awards granted as a percentage of issued share capital (including those held in treasury)	Options and awards granted during the year as a percentage of issued share capital (including those held in treasury)
10% in 10 years	2.4	0.4
5% in 5 years	1.6	0.4
5% in 10 years (executive plans)	1.8	0.4

EXTERNAL BOARD DIRECTORSHIPS

The Committee recognises that external non-executive directorships are beneficial for both the Executive Director concerned and the Company. Each serving Executive Director is restricted to one external non-executive directorship in a listed company and may not serve as the chair of a FTSE 100 company. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship.

Stefan Bomhard is a non-executive director of Compass Group PLC and was permitted to retain the £88,000 fee received from this position in the financial year.

4. REMUNERATION COMMITTEE MEMBERSHIP AND DUTIES

The Board is ultimately accountable for executive remuneration, but has delegated this responsibility to the Committee, at least three of whose members are independent Non-Executive Directors. The Chair, who is a member of the Committee, was independent on appointment. We consider this independence fundamental in ensuring Executive Directors' and senior management's remuneration is set by those who have no personal financial interest, other than as shareholders, in the matters discussed.

To reinforce this independence, a standing item at each Committee meeting allows the members to meet without any Executive Director or other manager being present.

The Committee considers its key responsibility as being to support the Company's strategy and short and long-term sustainable success. This is ensured by the adherence to our Executive Pay Principles set out on pages 125 and 126 and the Directors' Remuneration Policy which set the right conditions for high calibre executives to deliver and further, to provide long-term benefits to all stakeholders. It also determines the specific remuneration package, including service agreements and pension arrangements, for the Chair, each Executive Director and our Executive Leadership Team. When setting the policy for Executive Director remuneration, the Committee reviews workforce remuneration and related policies to ensure the alignment of incentives and rewards across the Group.

The Committee's other responsibilities include:

- maintaining a competitive Remuneration Policy appropriate to the business environment of the countries in which we operate, thereby ensuring we can attract, retain and motivate high calibre individuals throughout the business;
- aligning Executive Directors' and senior management's remuneration with the interests of long-term shareholders whilst ensuring that remuneration is fair but not excessive and reflects the contribution made;
- setting measures and targets for the performance-related elements of variable pay;
- oversight of our overall policy for employee remuneration, employment conditions and our employee share plans; and
- ensuring appropriate independent advisers are appointed to provide advice and guidance to the Committee.

The Committee's terms of reference are reviewed annually, and were last reviewed in September 2021. They are available on our website.

 www.imperialbrandspc.com.

When carrying out its duties the Committee considers the Remuneration Policy and practices in the context of provision 40 of the UK Corporate Governance Code, as follows:

Clarity – The Remuneration Policy sets out clearly each element of remuneration limits in terms of quantum and the discretions the Committee can apply. The DRR sets out the arrangements clearly and transparently. Questions on the remuneration arrangements can be raised at the AGM and also through our "Meet the Board" programme.

Simplicity – The remuneration structure for our Executive Directors consists of fixed pay (base salary, pension and benefits), annual bonus and a Long-Term Incentive Plan. Our remuneration structures throughout the organisation are simple in nature and understood by employees.

Risk – A number of features within the Remuneration Policy exist to manage different kinds of risks; these include:

- malus and clawback provisions operating across all discretionary incentive plans;
- deferral of remuneration and holding periods;
- Remuneration Committee discretion to override formulaic out-turns to ensure incentive pay-outs reflect underlying business performance and shareholder experience;
- limits on awards specified within the policy and plan rules; and
- regular interaction with the Audit Committee.

Predictability – The Committee regularly reviews the performance of inflight awards so it understands the likely outcomes.

Proportionality – The Committee is against rewarding poor performance and, therefore, a significant portion of remuneration is performance-based and dependent on delivering the Company's strategy. Performance targets are based on a combination of measures to ensure there is no undue focus on a single measure.

Alignment – There is a clear progression of remuneration throughout the workforce with performance measures supporting the key performance indicators and the long-term sustainability of the business. The Committee reviews the Remuneration Policy, taking into account the feedback received from shareholders and the impact on the wider workforce. The Committee benefits from the membership of Steven Stanbrook as the Workforce Engagement Director and the input he provides in terms of the wider employee experience.

GOVERNANCE REMUNERATION REPORT – CONTINUED

Remuneration Committee meetings 2020/21

The Remuneration Committee met for four scheduled meetings and one ad hoc meeting during the year although there was significant work outside the Committee to agree remuneration packages for new members of the senior leadership team. Details of the main activities are set out in the Chair's Statement at the beginning of the DRR.

Other regular attendees include the CEO, Company Secretary, Remuneration Committee Secretary, Chief People and Culture Officer, Group Reward Director and the Committee's principal adviser. None of the individuals were involved in any decisions relating to their own remuneration.

The main agenda items and decisions taken in the four meetings included the following:

November 2020	<ul style="list-style-type: none"> FY20 Annual Bonus out-turn agreed and downward discretion applied FY18 LTIP out-turn FY21 Annual Bonus structure FY21 LTIP performance measures and award levels Directors' Remuneration Policy finalised
February 2021	<ul style="list-style-type: none"> Approval of FY21 Annual Bonus Plan and FY21-23 LTIP performance targets Review of AGM voting and agreement on shareholder outreach to understand further shareholders' views
May 2021	<ul style="list-style-type: none"> Review of shareholder feedback and consultation and update on actions since the AGM Review of Executive Leadership Team shareholding policy
September 2021	<ul style="list-style-type: none"> Executive Director and Executive Leadership Team pay review and Chair's fee for FY22 FY22 Annual Bonus structure FY22 LTIP structure Forecasted out-turns for Annual Bonus and LTIPs Committee terms of reference

Advice provided to the Remuneration Committee

The Committee appointed FIT Remuneration Consultants LLP (FIT) as principal adviser with effect from 1 November 2017. FIT is a member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence. FIT carried out no other work for Imperial Brands or its subsidiaries, and the Committee is satisfied that FIT's advice was objective and independent. Fees paid were £131,868.

Other companies which provided advice to the Remuneration Committee are as follows:

Alithos Limited undertook total shareholder return (TSR) calculations and provided advice on all TSR-related matters. During the year it was paid £19,500, and provided no other services to the Company. Willis Towers Watson provided market pay data and was paid £27,600 for these services. Willis Towers Watson also provided actuarial services to the Company. All of these advisers were appointed by the Committee, which remains satisfied that the provision of those other services in no way compromises their independence. They are all paid on the basis of actual work performed rather than on a fixed fee basis.

VOTING ON THE REMUNERATION REPORT AT THE 2021 AGM

At the 2021 AGM there were two remuneration-related votes to approve the new Directors' Remuneration Policy and to approve the Directors' Remuneration Report.

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld ¹	Total votes cast including votes withheld
Directors' Remuneration Report	439,578,484	59.73	296,353,504	40.27	735,931,988	6,776,342	742,708,330
Directors' Remuneration Policy	706,375,474	95.28	34,958,557	4.72	741,334,031	1,374,300	742,708,331

1. Votes withheld are not included in the final figures as they are not recognised as a vote in law.

The strong support received for the Directors' Remuneration Policy followed extensive engagement with our largest shareholders during 2020. The input we received from shareholders was extremely helpful. Although the DRR resolution was carried, we were disappointed with the level of votes that were cast against.

In the run up to the 2021 AGM we engaged with a number of our shareholders to understand their concerns. The principal point at issue for them, and some of the proxy voting guidance services, was the level of base salary for Stefan Bornhard, CEO on his appointment.

Following the AGM, we continued to engage with our largest shareholders and their input has resulted in a number of actions the Committee has taken as a result of the feedback.

A key lesson learned is the need for the Committee to be clearer in the DRR about why it takes its decisions. The Committee would, therefore, have liked to highlight two aspects which were important in its considerations of setting Stefan Bomhard's remuneration at the time of his appointment. In competitive terms, his base salary is lower than the median of the FTSE 30 (excluding financial services) as is his total target remuneration and this was an important aspect of the Committee's consideration. Furthermore, in setting the salary of the CEO, the Committee took into consideration the need to balance restraint with paying fairly for the significant role being undertaken. These points should have been made more clearly in last year's report.

The Committee would also highlight a number of decisions it has taken as a result of the feedback it has received during its ongoing dialogue with investors:

- As announced on 18 February 2021, on an exceptional basis, the 2021 LTIP award to Stefan Bomhard was reduced from 350 per cent of salary to 315 per cent, a reduction of 10 per cent of the usual annual award. This decision took into account both share price performance over the year as well as feedback from shareholders about his base salary on appointment.
- As detailed in the Company's announcement of 17 February 2021 Lukas Paravicini joined the Board as Chief Financial Officer on 1 May 2021.
 - His annual salary is £730,000 (compared with his predecessor's salary of £750,000) and will not be increased before January 2023.
 - Lukas' base salary is between the median and the upper quartile of the FTSE 50 and at the median of the FTSE 30. His maximum total remuneration is at the median of the FTSE 50 and between the lower quartile and median of the FTSE 30.
 - In line with the Remuneration Policy approved by shareholder at our 2021 AGM, his pension allowance is equivalent to a maximum of 14 per cent of salary (in line with UK employees). His annual bonus is a maximum of 200 per cent of salary (pro-rated for time served in the first year of appointment), and the long-term incentive award a maximum of 250 per cent of salary.
 - The Committee considered external benchmarking data and internal relativities as reference points. It also considered the skills and experience that Lukas brings which are required to fulfil the role as the Company implements its new strategy.
 - The Committee also considers Lukas' pay reflects his proven track record in international consumer goods companies, and his impeccable finance credentials as well as considerable operational experience.
 - No LTIP awards were bought out but the Company has agreed to compensate him for a guaranteed bonus award he would have received from his previous employer ED&F Man in the amount of US\$750,000. The payment will be made in December 2021 and will be forfeited if his employment with the Company is terminated for cause or he has given notice to terminate his employment on or before the date of payment.

The Committee understands that shareholders have diverse views in respect of remuneration, and therefore continues to engage with the Company's largest shareholders to ensure it understands the range of views which exist on remuneration issues.



SUE CLARK
CHAIR OF THE REMUNERATION COMMITTEE

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 30 September 2021. This Directors' Report forms part of the management report as required under the Disclosure Guidance and Transparency Rules.

CONFLICTS OF INTEREST

Our Directors have a statutory duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, and give notice of any such conflict at the start of any Board meeting. The Company's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. Directors are not allowed to participate in such considerations or to vote regarding their own conflicts.

Any potential conflicts of interest are considered and addressed prior to any new external Board appointment. All potential conflicts are submitted to the Board for consideration and, as appropriate, authorisation in accordance with our Articles of Association and the Companies Act 2006 and entered into our Conflicts Register. As part of our annual review process, all situations entered in the Conflicts Register are reviewed and reconsidered. The Board is satisfied that the independence of those Directors who have external board appointments has not been compromised and there are currently no cross-directorships between Board members.

The Board confirms that, with the exception of the Chair, who is not subject to the Code's independence test but met the independence criteria on appointment, all NEDs remained independent throughout the year as defined in the Code.

Details of the Directors' share interests are shown in the Directors' Remuneration Report on page 133.

EXTERNAL APPOINTMENTS

NEDs, including the Chair, may serve on a number of other boards provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company, nor represent a conflict of interest.

Mindful of published investor guidance, the Succession and Nominations Committee reviews the extent of the NEDs' other interests throughout the year. In accordance with the provisions of the 2018 Code, all NEDs are required to obtain approval of the Board prior to accepting any new office or employment. The Board is satisfied that each of the NEDs commits sufficient time to their duties in relation to the Company. The Chair and each of the NEDs has confirmed they have sufficient time to fulfil their obligations to the Company.

The Board is supportive of Executive Directors and members of the ELT accepting non-executive directorships of other companies to widen their experience and knowledge for the benefit of the Company. Accordingly, in accordance with the Code and subject to the agreement of the Board, Executive Directors and members of the ELT are permitted to accept one external non-executive board appointment and to retain any fees received from such appointment. At the time of publication of this report, Stefan Bornhard held one non-executive directorship, and no ELT members had an external appointment.

INDUCTION AND TRAINING

Following their appointment to the Board, new Directors receive a tailored induction programme which includes industry-specific training, meetings with senior management and site visits to the Group's businesses, although during the financial year these have been restricted due to the COVID-19 pandemic. New Directors are also briefed on internal controls at both head office and business unit level and provided with information on relevant Company policies and governance-related matters. See page 110 for details of the induction programme of Lukas Paravicini.

The Company is committed to the continuing development of its NEDs in order that they may build on their expertise and develop their understanding of our business. Briefings are given by our advisers on matters of legislative change and corporate governance developments as well as focused Committee topics such as executive remuneration, financial reporting requirements and environmental issues. Periodic "deep dives" into various areas of the business are presented to the Board in the regular meeting schedule.

The Company Secretary is responsible for advising the Board, through the Chair, on matters of corporate governance. In addition, all Directors have access to the advice of the Company Secretary and, where appropriate, the services of other employees for all governance and regulatory matters.

Independent professional advice is available to all Directors, in appropriate circumstances, at the Company's expense.

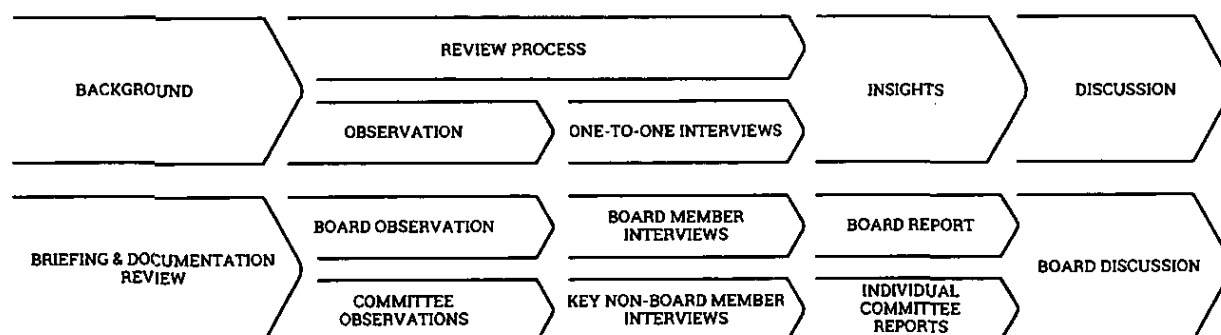
BOARD EVALUATION

BACKGROUND

The Code requires that an external evaluation is carried out every three years, with an internal evaluation in the intervening years. However, as discussed in our 2020 Annual Report, the Chair considered it appropriate to defer an externally facilitated Board

evaluation for one year due to the significant changes to the Board and to allow time for both herself and the SID to complete a full year in office and for our renewed strategic direction to be established.

An externally facilitated evaluation was therefore undertaken during May and June 2021, conducted by Lisa Thomas at Independent Board Evaluation (IBE). Neither Lisa nor IBE has any other link with the Company or its Directors.



REVIEW PROCESS

The evaluation process consisted of a briefing from the Chair in May 2021, observing Board and Committee meetings in May and June, and interviews with Board members, senior management, the auditors and remuneration consultants during June and July.

Following completion of the interviews, the findings were collated and discussed with the Chair and the CEO separately in August 2021 and presented back to the Board for discussion at its September meeting, with Lisa Thomas present. Feedback on Committees was presented to each Committee Chair and reviewed with the whole Board.

Feedback on the Chair was presented to and discussed with the SID who shared it with Board colleagues before discussing it with the Chair, and feedback on individual Board member performance was discussed with the Chair, with the aim of forming discussion and development points for each Director.

In view of the multiple changes at Board and executive level, the review was mainly forward looking, to establish ways of working for a new team, who are focused now on strategy execution, overseeing a culture transformation, settling in the new Executive Committee, as well as developing the NGP strategy.

INSIGHTS

The broad message from the review is that the Board is in a very different place one year on, under the leadership of the new Chair. This was confirmed by the feedback from non-Board colleagues. The Board has demonstrated a positive outlook over the last year, showing support for the CEO and an ability to challenge and add value, especially through the strategy process, which received very positive feedback. Naturally the Board is in transition and Board relationships

are developing, but the Board is looking forward to a further strengthening of Board culture and dynamics through in-person meetings. The feedback confirmed that notwithstanding virtual meetings, this has been an open boardroom throughout the pandemic, with free-flowing discussion and an inclusive approach to new members.

The Board rated several areas of its performance highly, including strategy, Board focus, governance

and compliance, accountability to shareholders, boardroom culture and decision-making. Areas for further progress, and which will be the focus of the Board's action plan, were felt to be risk, ESG/stakeholder engagement, succession planning and Board papers. At the time of the review, Board composition also needed some attention, and this has now been addressed through the appointment of Ngozi Edozien and Diane de Saint Victor.

DISCUSSION

Against a backdrop of a number of recommendations to address the above, the Board has decided to focus on the following for 2022:

1. With a significant change programme in flight, the Board will agree what its own objectives are for the next year, separate from the business objectives, so that it maintains focus on the important topics for its agenda and balances those with its governance responsibilities. Whilst the Board focused well on its agenda through the pandemic, with the strategy re-set and the changes to personnel, it acknowledges that it needs to bring fewer topics onto the agenda in order to allow for deeper discussions. Some of the themes for the objectives discussion will be ESG, NGP, people and talent, consumer centricity, safety and wellbeing, and risk, which will all be the subject of more strategic focus. The Board plans to establish its objectives following the year end and will table a discussion for this in early 2022. As part of this focus, the CEO will chair a new Executive Committee dealing with ESG, which will report straight to the Board.
2. This more focused agenda will be reflected in the approach to Board materials, and how items are discussed at the Board, including enhancing broader stakeholder considerations. The Board will consider developing more non-financial KPIs to allow it to have oversight of strategy execution and cultural indicators, with the aim of formulating these into a dashboard for the Board to have a regular overview of progress.

3. The Board will establish a plan for continuing its engagement with the business and the wider workforce, so that it can further deepen its knowledge of the business, and form relationships with the new senior team, with the aim of extending the collaborative approach between the new Board and the new team and ensuring continued challenge and support at all times, whilst also leveraging Board skills.
4. Expanding the remit of the Succession and Nominations Committee to include governance and repurposing it into the People and Governance Committee. This Committee will continue to address agenda items in line with code expectations for a Nominations Committee, and will include the broader listening strategy and detailed oversight of the culture transformation.

CHAIR AND COMMITTEES

Board Colleagues were extremely positive about the impact the Chair has made in these early stages of her tenure as Chair. Amongst her positive attributes are the ability to focus the board agenda, take difficult decisions and to communicate clearly and directly.

The Board Committees were also reviewed, with the Audit Committee Chair receiving high praise for his input, time commitment and deep technical understanding. The Committee is well set to make a further step change with the arrival of Lukas Paravicini as CFO. The main areas to focus on for the Audit Committee are a more simplified and efficient operational processes and pushing for a step up in pace to enhancements to the Group's control framework.

The Remuneration Committee Chair is described as managing the Remuneration Committee highly effectively, spending time in advance with colleagues and advisers and briefing accordingly. Remuneration Committee feedback indicates that the Committee is rigorous and should benefit from enhanced support from the refreshed HR team.

INSURANCE & INDEMNITIES

Our Directors and Officers can face significant personal liability under criminal or civil law or the UK Listing regime, and can face a range of penalties, including censure, fines and imprisonment. In order to attract the best people, the Company considers that it is in both its and stakeholders' best interests to protect them from the consequences of innocent error or omission. During the year the Company has, therefore, purchased and maintained appropriate insurance cover in respect of directors' and officers' liabilities. Qualifying third-party indemnity arrangements for the benefit of Directors, in a form and scope which comply with the requirements of the UK Companies Act 2006 (the Act), were also in force throughout the year and up to the date of this Annual Report.

EQUAL OPPORTUNITIES

We regard equality and fairness as a fundamental right of all our people. We aim to create a work environment that allows equal opportunities so they are employed fairly, safely and in compliance with applicable employment laws and regulation. We respect each person for who they are and what they can contribute and provide the same opportunity for career development and promotion regardless of disability, physical or mental health, age, race, origin, gender, sexual orientation, political views, religion, marital status or any other legally protected status.

CHARITABLE & POLITICAL DONATIONS

As part of our responsible approach, we continued to support a number of communities in which we operate by allocating a central budget. This budget largely funds our support of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and our support of Hope for Justice. Further information can be found within the case studies on our website. In addition, a number of our subsidiaries donate to charitable and community endeavours from local budgets.

The ongoing COVID-19 pandemic has had a profound impact on all our lives. We are very proud of the way our business continues to support local communities during this time. During the pandemic we have continued to make donations to support the communities in which we operate, including in Poland to support local hospitals; in Laos to support virus relief funds and taskforces; and in the Congo and Mali to support vaccination programmes as well as local hospitals.

All charitable donations and partnership investments are subject to the requirements of our Code of Conduct.

No political donations were made to EU political parties, organisations or candidates (2020: Nil). This approach is aligned with our Group Policy and Code of Conduct.

OTHER INFORMATION

In accordance with the Act the following items have been included in other sections of this Annual Report:

- a fair review of the business, as required by the Companies Act 2006, is included in the Strategic Report;
- the information in our Governance Report is included in this Directors' Report by reference;
- future developments in the business are included in the Value Creation Framework commencing on page 4;
- information relating to our people, including colleague engagement, is included in the Our People and Culture section on pages 46 to 49 and on page 103 in our Governance Report;
- our principal risks are detailed on pages 80 to 91;
- information relating to our sustainability approach that supports our environmental, social and governance agenda is included on pages 50 to 63;
- responsibilities to a broader stakeholder group, including our consumers and customers, are included on pages 42 to 44, and 100 to 103;
- information on our greenhouse gas emissions is included on pages 52, 54, 56 and 63; and

- the Directors of the Company are listed on pages 96 and 97.

Our report under the Streamlined Energy and Carbon Reporting requirements can be found on page 54.

SHARE CAPITAL & INTEREST IN VOTING RIGHTS

Details of our share capital are shown in note 26 to the financial statements. All shares other than those held in treasury are freely transferable and rank *pari passu* for voting and dividend rights.

As at 30 September 2021 we held 74,289,137 shares in treasury, which represented 7.28 per cent of issued share capital and had an aggregate nominal value of £7,428,914.

We have not cancelled these shares but hold them in a treasury shares reserve within our profit and loss account reserve and they represent a deduction from equity shareholders' funds.

The Company has been notified of the following interest in 3 per cent or more of our shares in accordance with Section 5.1.2 of the Disclosure Guidance and Transparency Rules (DTRs). The Company has been notified of the following interest since the year end and up to 15 November 2021, being a date not more than one month prior to the date of the AGM Notice of Meeting, in accordance with DTR 5:

	Number of ordinary shares at the date of notification (millions)	Percentage of issued share capital at the date of notification
BlackRock Inc	53	5.59 ²
FIL Limited	47	4.98 ²
The Capital Group Companies, Inc.	46	4.88 ²
Spring Mountain Investments Ltd	38	4.11 ¹
Notifications received post year end		
Spring Mountain Investments Ltd ³	49	5.17 ¹

1. Direct holding.
2. Indirect holding.
3. Notified 12 November 2021.

INFORMATION ON ACQUISITION OF OWN SHARES

At its AGM on 3 February 2021, the Company obtained shareholder authorisation for the buyback of up to 94,600,000 shares. No shares were purchased during the year. During the previous financial year 5,098,508 shares, representing approximately 0.5 per cent of the Company's issued share capital, were purchased at a cost of £91,606,155.

RESULTS & DIVIDENDS

We include a review of our operational and financial performance on pages 36 and 37.

The profit attributable to equity holders of the Company for the financial year was £2,834 million, as shown in our Consolidated Income Statement. Note 3 to the financial statements gives an analysis of revenue and operating profit.

An analysis of net assets is provided in the Consolidated Balance Sheet and the related notes to the financial statements.

We pay quarterly dividends. The first and second dividends for financial year 2021 were paid on 30 June 2021 and 30 September 2021 respectively. The third dividend will be paid on 31 December 2021 and, subject to AGM approval, the final dividend will be paid on 31 March 2022 to our shareholders on the Register of Members at the close of business on 18 February 2022. The associated ex-dividend date will be 17 February 2022.

GOVERNANCE DIRECTORS' REPORT – CONTINUED

Following a review by the Audit Committee at its meeting in November 2021, which confirmed the accounts showed distributable reserves sufficient to support the expected third interim and final dividends and the interim dividends in financial year 2022, the Directors have declared and propose dividends as follows:

Ordinary shares	2021 £ million	2020 £ million
Interim paid – June 2021, 21.06p per share	199	197
Interim paid – September 2021, 21.06p per share	199	197
Proposed interim – December 2021, 48.48p per share	458	453
Proposed final – March 2022, 48.48p per share	458	454
Total ordinary dividends, 139.08p per share (2020: 137.71p)	1,314	1,301

PENSION FUND

The Group has three main pension arrangements, the largest being the Imperial Tobacco Pension Fund, which is not controlled by the Board but by a trustee company. Its board consists of five Directors nominated by the Company, one Director nominated by employee members and two Directors nominated by current and deferred pensioners. This trustee company is responsible for the assets of the pension fund, which are held separately from those of the Group and are managed by independent fund managers. The pension fund assets can only be used in accordance with the fund's rules and for no other purpose.

ARTICLES

The Company's Articles of Association do not contain any entrenchment provisions and, therefore, may be altered or added to, or completely new Articles may be adopted, by special resolution, subject to the provisions of the Companies Act 2006.

SIGNIFICANT AGREEMENTS THAT TAKE EFFECT, ALTER OR TERMINATE ON CHANGE OF CONTROL

The agreements summarised below are those which we consider to be significant to the Group as a whole and which contain provisions giving the other party or parties a specific right to terminate them if we are subject to a change of control following a takeover bid.

The Group has a credit facility agreement that provides that, unless the lenders (as defined within each agreement) otherwise agree, if any person or group of associated persons and/or any connected persons acquires the right to exercise more than 50 per cent of the votes exercisable at a general meeting of the Company, the respective borrowers (as defined within each agreement) must repay any outstanding utilisation owed by them under the facility agreement and the total commitments under that facility agreement will be cancelled.

The credit agreement is:

- A credit facilities agreement dated March 2020 under which certain banks and/or financial institutions make available to Imperial Brands Finance PLC and Imperial Tobacco Germany Finance GmbH committed credit facilities of €3,500 million for a period of up to three years with bi-annual six month auto-extensions.

In addition, five deeds of counter-indemnity each dated July 2020 made on substantially the same terms under which certain insurance companies (the Sureties) have made available to the Company, Imperial Brands Finance PLC and Imperial Tobacco Limited a surety bond, in each case issued on a standalone basis but in aggregate forming an amount of £225 million, until January 2026.

If any person or group of associated persons (as defined within each agreement) acquires the right to exercise more than 50 per cent of the votes exercisable at a general meeting of the Company, the Sureties may demand that Imperial Tobacco Limited, amongst other things, pay a sum to a cash collateral account equal to but not exceeding the aggregate amount outstanding under each guarantee.

Imperial Brands Finance PLC and Imperial Brands Finance Netherlands B.V. have issued bonds under Euro Medium Term Notes (EMTN) Debt Issuance Programmes. The Company acts as guarantor.

The final terms of these series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at its nominal value if: (a) any person, or persons acting in concert or on behalf of any such person(s), becomes interested in: (i) more than 50 per cent of the issued or allotted ordinary share capital of the Company; or (ii) such number of shares in the capital of the Company carrying more than 50 per cent of the voting rights normally exercisable at a general meeting of the Company; and (b) as a result of the change of control, there is either: (i) a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms; or (ii) to the extent that the notes are not rated at the time of the change of control, the Issuer fails to obtain an investment grade credit rating of the notes within the change of control period as a result of the change of control.

The bonds Imperial Brands Finance PLC issued in such manner are as follows:

- 15 September 2008 £600 million 8.125 per cent guaranteed notes due 2024;
- 17 February 2009 £1,000 million 9 per cent guaranteed notes due 2022;
- 26 September 2011 £500 million 5.5 per cent guaranteed notes due 2026;
- 28 February 2014 €650 million 3.375 per cent guaranteed notes due 2026;
- 28 February 2014 £500 million 4.875 per cent guaranteed notes due 2032;
- 27 January 2017 €500 million 1.375 per cent guaranteed notes due 2025;
- 12 February 2019 €750 million 1.125 per cent guaranteed notes due 2023; and
- 12 February 2019 €750 million 2.125 per cent guaranteed notes due 2027.

The bonds Imperial Brands Finance Netherlands B.V. issued in such manner are as follows:

- 18 March 2021 €1,000 million 1.750 per cent guaranteed notes due 2033.

Imperial Brands Finance PLC has also issued bonds in the United States of America under the provisions of Section 144a and Regulation S respectively of the US Securities Act (1933). The Company acts as guarantor.

The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at 101 per cent of its nominal value if:

(a) (i) any person (as such term is used in the US Securities Exchange Act of 1934 (the Exchange Act)) becomes the beneficial owner of more than 50 per cent of the Company's voting stock; or (ii) there is a transfer (other than by merger, consolidation, amalgamation or other combination) of all or substantially all of the Company's assets and those of its subsidiaries to any person (as such term is used in the Exchange Act); or (iii) a majority of the members of the Company's Board of Directors is not continuing in such capacity; and

(b) as a result of the change of control, there is a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms.

The bonds issued in such manner are as follows:

- 11 February 2013 \$1,000 million 3.5 per cent guaranteed notes due 2023;
- 21 July 2015 \$1,500 million 4.25 per cent guaranteed notes due 2025;
- 21 July 2015 \$1,250 million 3.75 per cent guaranteed notes due 2022;
- 26 July 2019 \$1,000 million 3.125 per cent guaranteed notes due 2024;
- 26 July 2019 \$750 million 3.5 per cent guaranteed notes due 2026; and
- 26 July 2019 \$1,000 million 3.875 per cent guaranteed notes due 2029.

OTHER INFORMATION – LISTING RULES

In respect of LR 9.8.4R (12) and (13) the trustee of the Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust agrees to waive dividends payable on the Group's shares it holds for satisfying awards under various Imperial Brands PLC share plans.

In accordance with Section 726 of the Act no dividends can be paid to the Company in respect of the shares it holds in treasury.

Post year-end events

On 26 October 2021 deferred consideration of €88 million was received in relation to the sale of the Premium Cigar Division. See note 34.

Annual General Meeting

This year's AGM will be held at The Bristol Marriott Hotel City Centre, 2 Lower Castle Street, Old Market, Bristol, BS1 3AD on Wednesday 2 February 2022 at 2.30 pm.

The Notice of Meeting, instruction for joining and details of the resolutions to be put to the meeting are included in the Circular to all shareholders and can be found on our website.

 www.imperialbrandspc.com.

2021 AGM vote

At the AGM in 2021, the Company received strong support for all its resolutions other than resolution 2, Directors' Remuneration Report. Further detail regarding the concerns expressed by shareholders in respect of resolution 2 can be found under "Consideration of Shareholder Views" within the Remuneration Report on pages 138 and 139.

For the purposes of LR 9.8.4R, the information required to be disclosed by LR 9.8.4R can be found on the pages set out below:

Section	Information	Page
(1)	Interest capitalised	N/A
(2)	Publication of unaudited financial information	N/A
(4)	Details of long-term incentive schemes	124, 126, 128, 129 and 131
(5)	Waiver of emoluments by a director	N/A
(6)	Waiver of future emoluments by a director	125, 126, and 130.
(7)	Non pre-emptive issues of equity for cash	N/A
(8)	Non pre-emptive issue by major subsidiary undertakings	N/A
(9)	Listed subsidiary	N/A
(10)	Contracts of significance	144 and 145
(11)	Provision of services by a controlling shareholder	N/A
(12)	Shareholder waivers of dividends	See above
(13)	Shareholder waivers of future dividends	See above
(14)	Agreements with controlling shareholders	N/A

STATEMENT OF RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union and have elected to prepare the Parent Company financial statements in accordance with the Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and applicable accounting standards.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- for the Group financial statements, state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union;
- for the Parent Company financial statements, state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from information included on the legislation in other jurisdictions.

DIRECTORS' CONFIRMATIONS

Each of the Directors, whose names and functions are listed on pages 96 and 97, confirms that, to the best of their knowledge:

- the Parent Company financial statements, which have been prepared in accordance with Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company;

- the Group financial statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

The Directors' responsibilities in relation to the disclosure of information to auditors is disclosed in the Audit Committee Report on page 119.

The Strategic Report and the Directors' Report were approved and signed by order of the Board.



JOHN DOWNING
COMPANY SECRETARY

15 November 2021

Imperial Brands PLC
Incorporated and domiciled in England and Wales
No: 3236483

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC

Opinion

In our opinion:

- Imperial Brands PLC's consolidated financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2021 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Imperial Brands PLC (the 'parent company') and its subsidiaries (the 'Group') for the year ended 30 September 2021 which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2021	Balance sheet as at 30 September 2021
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to IX to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated cash flow statement for the year then ended	
Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of the directors' going concern assessment process, including the controls over the review and approval of the business plan and cash flow forecasts covering the period through to 31 March 2023;
- assessing the appropriateness of the duration of the going concern assessment period to 31 March 2023 and considering the existence of any significant events or conditions beyond this period based on our procedures on the Group's business plan, cash flow forecasts and from knowledge arising from other areas of the audit;
- verifying inputs against the board-approved business plan, cash flow forecasts and debt facility terms, and reconciling the opening liquidity position to the prior year end and half year going concern assessments;
- reviewing borrowing facilities to confirm both their availability to the Group and the forecast debt repayments through the going concern assessment period and to validate that there are only two financial covenants in relation to the revolving credit facility;
- evaluating management's historical forecasting accuracy and the consistency of the going concern assessment with information obtained from other areas of the audit, such as our audit procedures on the business plan and cash flow forecasts which underpin management's goodwill impairment assessments;
- testing the assessment, including forecast liquidity under base and downside scenarios, for clerical accuracy;

- assessing whether assumptions made were reasonable and in the case of downside scenarios, appropriately severe, in light of the Group's relevant principal risks and uncertainties and our own independent assessment of those risks;
- assessing management's considerations related to material climate change impacts in the going concern period
- evaluated the amount and timing of identified mitigating actions available to respond to a severe downside scenario, and whether those actions are feasible and within the Group's control;
- performing reverse stress testing on management's base case scenario to understand how severe conditions would have to be to breach liquidity or financial covenants and whether the reduction in EBITDA has no more than a remote possibility of occurring;
- performing independent stress testing on management's assumptions including applying incremental adverse cash flow sensitivities. Our sensitivities included the impact of certain severe but plausible scenarios, identified in other areas of our audit, including litigation and tax, materialising within the going concern period; and,
- assessing the appropriateness of the going concern disclosure on page 92.

Our key observations

- The directors' assessment forecasts that the Group will maintain sufficient liquidity throughout the going concern assessment period in the base case scenario. Under management's worst-case scenario, which includes a permanent reduction in profitability of 30%, an increase in bad debt and loss of factoring facilities, liquidity is eliminated in February 2022. We have not identified any material climate-related risks that should be incorporated into the company's forecasts to 31 March 2023.
- Controllable mitigating actions available to management over the going concern assessment period, including reductions to non-declared dividend payments, are sufficient to restore liquidity in both management's plausible downside scenario and the audit team's additional downside sensitivities.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 31 March 2023.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of 5 components and audit procedures on specific balances for a further 19 components. • The components where we performed full or specific audit procedures accounted for 95% of Profit before tax, 85% of Revenue and 80% of Total assets.
Key audit matters	<ul style="list-style-type: none"> • Revenue recognition, including management override of controls • Reporting performance • Carrying value of NGP non-current assets • Uncertain tax positions • Litigation
Materiality	<ul style="list-style-type: none"> • Overall Group materiality of £148m represents 5% of profit before tax, adjusted for the one-off gain on the disposal of subsidiaries.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the level of revenue, assets and profit before tax, risk profile (including country risk, controls and internal audit findings and the extent of changes in the business environment) and other known factors when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 388 reporting components of the Group, we selected 24 components.

Of the 24 components selected, we performed an audit of the complete financial information of 5 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 19 components selected ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC – CONTINUED

In addition, we conducted specified procedures over a number of account balances relating to 10 reporting units, representing 1% of the Group's profit before tax, 1% of the Group's revenue and 2% of the Group's total assets, in response to the specific risks associated with these.

Of the remaining 354 components that together represent 4% of the Group's profit before tax, none are individually greater than 2% of the Group's profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The table below illustrates the coverage obtained from the work performed by our audit teams.

Reporting components	2021				2020			
	Number	% of Group PBT	% of Group Revenue	% of Group Assets	Number	% of Group PBT	% of Group Revenue	% of Group Assets
Full scope	5	63%	60%	55%	7	61%	62%	41%
Specific scope	19	32%	25%	25%	21	21%	22%	42%
Specified procedures	10	1%	1%	2%	37	7%	13%	9%
Full, specific, and specified procedures coverage	34	96%	86%	82%	65	89%	97%	92%
Remaining components	354	4%	14%	18%	312	11%	3%	8%
Total reporting components	388	100%	100%		377	100%	100%	

Changes from the prior year

The approach to audit scoping is similar to the prior year audit. Our scoping changes from the prior year due to the change in either risk assigned to the components or contribution by the component include the following:

- Components in France, Morocco and Spain have been reassessed as Specific scope in the current year (FY20: Full scope) reflecting lowered audit risk in comparison to the prior year.
- The parent company component entity has been reassessed as full scope (FY20: Specific scope) as the work over this entity is carried out in full at the same time as the group audit.
- Components in Russia and Poland have been reassessed as Specified procedures scope in the current year (FY20: Specific scope) reflecting lowered audit risk and reduced contribution by the component respectively in comparison to the prior year.
- Another component in France and one in Ireland have been reassessed to no longer be in scope in the current year (FY20: Specific scope) reflecting lowered audit risk in comparison to the prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 5 full scope components, audit procedures were performed on one of these directly by the Group audit team and four by component audit teams. For the 19 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

Imperial has centralised processes and controls in relation to certain accounts managed by its Finance Shared Services ("FSS") centres in Manila and Krakow. Members of the Group engagement team provided direct oversight, review, and coordination of the EY FSS audit teams. The EY FSS audit teams performed centralised testing for certain accounts covered at the Imperial FSS locations, including revenue and receivables and purchases and payables. In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the locations by the Group engagement team or by auditors from local EY teams.

Impact of the COVID-19 pandemic – direction, supervision and review of component teams

Due to travel restrictions imposed by the COVID-19 outbreak, with the exception of UK based component teams, we did not plan to perform physical visits to component teams but instead carried out virtual meetings.

These virtual meetings involved meeting with our component teams to discuss and direct their audit approach, reviewing key working papers and understanding the significant audit findings in response to the risk areas including revenue recognition and uncertain tax positions, holding meetings with local management, obtaining updates on local regulatory matters including tax, pensions and legal.

The Group audit team interacted regularly with the component teams, where appropriate, during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
<p>Revenue recognition, including management override of controls (2021: £32,791m, 2020: £32,562m)</p> <p>Tobacco revenue is an area of focus for stakeholders interested in the performance of the company against an industry backdrop of declining global sales volumes.</p> <p>Most of the Group's sales arrangements require little judgement to be exercised, with revenue being recognised on the delivery of goods. However, there is a risk that management may override controls to intentionally misstate revenue transactions by recording fictitious manual journals to revenue (e.g. by inappropriate rebate accounting).</p> <p>Refer to the audit committee report (page 116); accounting policies (note 1); accounting estimates and judgements (note 2); and segmental information (note 3) of the consolidated financial statements.</p>	<p>We obtained an understanding of the revenue process and understood how Imperial's revenue recognition policies are applied.</p> <p>We reviewed the Group revenue recognition policies, as documented in the Group Accounting Manual, for compliance with IFRS 15 'Revenue from contracts with customers'.</p> <p>We discussed and reviewed key contractual arrangements with management and obtained relevant documentation, including in respect of rebate arrangements. Where rebate arrangements exist, on a sample basis, we obtained third-party confirmations or performed appropriate alternative procedures where confirmations were requested and not received, including reviewing contracts and recalculating rebates, validating the inputs of management's calculations, and tracing rebate provision amounts to post year-end settlements.</p> <p>As part of our overall revenue recognition testing, for all components with revenue in scope we used data analytics techniques. This included testing the occurrence of revenue by analysing the correlation of 100% of journal entries posted to revenue with journals posted to accounts receivables and then subsequently as cash receipts. We validated cash receipt postings by tracing to bank statements on a sample basis. This provided us with a high level of assurance over £28.7 billion (85%) of revenue recognised by the Group.</p> <p>For the eight in-scope components where we did not use data analysis techniques, we performed appropriate alternative procedures.</p> <p>Our procedures, applicable to all full and specific scope components included the following:</p> <ul style="list-style-type: none"> • Cut-off testing for a sample of revenue transactions near the period end to check that they were recognised in the appropriate period; • Obtaining and reviewing, on a sample basis, direct customer confirmations of trade terms, as appropriate; • Targeted manual journal entry testing in response to the risk of fraud; and, • Review of disclosures against the requirements of IFRS 15 <p>The audit procedures performed to address this risk were performed by component teams and reviewed by the Group team.</p>

Key observations communicated to the Audit Committee

Based on the procedures performed, including those in respect of manual adjustments to revenue, we did not identify any evidence of material misstatement in the revenue recognised in the year.

Risk	Our response to the risk
<p>Reporting performance</p> <p>The Annual Report is a complex document and is a primary source of information for investors and broader stakeholders looking to assess the <i>performance of the business</i>. There is a risk that disclosures upon which key stakeholders base decisions are misstated. We consider that this risk manifests itself in three principal ways:</p>	<p>Measurement and classification of adjusting items</p> <p>We considered the appropriateness of the APM policy implemented by management, including how this linked to metrics which impact management remuneration, with reference to FRC guidance and results of recent thematic reviews.</p> <p>We assessed the APM policy for alignment with ESMA guidance, specifically:</p> <ul style="list-style-type: none"> • clarity of definitions and explanations for use; • adequacy of reconciliations to GAAP measures; • equal prominence to GAAP measures; and • consistency of application, including explanations for any changes.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC - CONTINUED

Risk	Our response to the risk
<p>Measurement and classification of adjusting items</p> <p>A number of Alternative Performance Measures (APMs) are used in the annual report. There is currently heightened regulatory focus on the use of APMs, including how these are linked to executive remuneration. There is a risk that APMs are perceived by regulators or investors to lack appropriate transparency in their derivation or justification for their use.</p>	<p>We challenged whether the timing of recognition of one-off costs and the classification of these costs as adjusting and evaluated the classification of one-off adjustments for indicators of management bias; in particular, whether both income and expense items are treated consistently.</p> <p>We identified restructuring as an item for which operating profit is adjusted to arrive at adjusted operating profit. We tested the completeness and accuracy of restructuring costs including verifying that IAS 37 criteria had been correctly met and also that these costs were appropriately classified between the three categories disclosed in the annual report. We also verified that the company's accounting policy, including the treatment of all restructuring costs as adjusting, was appropriately approved by the Audit Committee.</p>
<p>Trade loading</p> <p>The impact of promotional activity around period ends can have a material impact on performance in the following period. This anticipated impact, if material, should be described in the front half of the annual report to provide investors with a fair and balanced understanding of the drivers of business performance.</p>	<p>We reviewed the annual report disclosure, including Imperial's management rationale for inclusion, equal prominence with statutory measures and transparency of the reconciliation of statutory measures to APM's.</p>
<p>Recognition of NGP net revenue (2021: £188m, 2020: £201m)</p> <p>For the purpose of the adjusted performance measure (APM) of net revenue an adjustment is made to treat Logista as an arms length distributor rather than a related party. There is a risk that the judgemental inputs used in calculating this adjustment are too optimistic, thereby overstating NGP net revenue.</p>	<p>Trade loading</p> <p>We performed detailed, disaggregated analytical review to identify unusual trends and inventory positions at all full and specific scope locations. Our procedures focused on variances in receivable days and customers rebates/discounts at period ends, which could represent inventory being 'pushed' into the channel.</p> <p>We reviewed external factors for indicators of trade pull factors with a focus on full scope and high-risk markets.</p> <p>We made inquiries outside of finance to identify instances of late or unusual requests for shipments or extensions of credit terms.</p> <p>We obtained third party confirmations of trade terms from customers to assess for indicators of trade loading, such as unusual sales patterns, rebates/discounts or increased receivable days at period-ends.</p> <p>We assessed the sufficiency of disclosure, in narrative reporting and investor presentations, of any impact of trade loading.</p> <p>NGP net revenue</p> <p>We understood the methodology applied by management in performing the calculation of NGP net revenue and walked through the controls over this process.</p> <p>We performed detailed testing, including consideration of contradictory evidence, to critically assess the key inputs to the calculation, including:</p> <ul style="list-style-type: none"> • analysing the historical accuracy of forecasts to actual results to determine whether forecast sales are reliable based on experience; • assessing the appropriateness of the Logista inventory holding period relative to that which would be used by a distributor on an arms-length terms; • performing sensitivity analysis and evaluating the likelihood of inputs varying; and • reading the 'Net Revenue' accounting policy in the Annual Report to assess the adequacy of disclosure of how the metric is derived and why it is used.

Key observations communicated to the Audit Committee

We consider that restructuring costs and provisions have been accounted for and disclosed appropriately.

Following our procedures performed over trade loading, we did not identify any matters requiring disclosure.

For NGP net revenue, we consider the accounting policy presented in the Annual Report and Accounts transparently discloses how the APM is derived and why it is used.

Risk	Our response to the risk
Carrying value of NGP intangible assets (Impairment charge – 2021: £118 million, 2020: £27 million) The rapid evolution of technology and changes in consumer preferences in the NGP category results in a risk that intangible assets under development become obsolete before they reach commercial production. There is also a risk that anticipated performance may not be achieved for assets that are being or are expected to be used in the NGP category. These circumstances could lead to an impairment that has not been recognised by management.	Carrying value of NGP intangibles We understood the methodology applied in management's impairment testing and walked through the controls over the process. For assets where there were indicators of impairment, such as paused or slowed development activity, or were not yet being amortised, we critically assessed management's assertions and key input assumptions by: <ul style="list-style-type: none">• assessing a sample of assets against the IAS 38 criteria to determine whether it remains appropriate to continue to hold these assets, focusing on management's intention to bring assets into commercial use;• analysing the historical accuracy of forecasts to actual results to determine whether forecast cash flows are reliable based on experience;• in conjunction with our valuation specialists, assessing the discount rate used by benchmarking it against market data and comparable organisations;• evaluating the growth rates assumed by comparison to industry forecasts;• performing sensitivity and reverse stress testing and evaluating the probability of inputs varying; and,• assessing the integrity of management's value-in-use (VIU) model by independently performing VIU calculations and comparing our outputs to those prepared by management. We evaluated the disclosures in the Annual Report for consistency with the findings of our audit procedures, including signposting the potential impact of the strategic review. The audit procedures performed to address this risk were performed by the Group audit team.

Key observations communicated to the Audit Committee

The change in NGP strategy has been rightly identified by management as an indicator of impairment.

For NGP intangible assets, we consider that the disclosure of the impairment charge in the Annual Report is appropriate. We are satisfied that the carrying value of NGP intangible assets is materially correct.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC - CONTINUED

Risk	Our response to the risk
<p>Uncertain tax positions (Provision for uncertain tax positions - 2021: £306m, 2020: £273m)</p> <p>The global nature of the Group's operations results in complexities in the payment of and accounting for tax.</p> <p>Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws.</p> <p>Given this judgement, there is a risk that tax provisions are misstated.</p>	<p>We understood:</p> <ul style="list-style-type: none"> the Group's process for determining the completeness and measurement of provisions for tax; the methodology for the calculation of the tax charge; and management's controls over tax reporting. <p>The Group audit team, including tax specialists, evaluated the tax positions taken by management in each significant jurisdiction in the context of local tax law, correspondence with tax authorities and the status of any tax audits. Our assessment included consideration of the past outcome of comparable cases and look-back analysis on management's historic rates of successfully defending tax positions. Our work utilised additional support from country tax specialists in France, Germany, Belgium, Spain and the USA.</p> <p>We assessed the Group's transfer pricing judgements, considering the way in which we observed the Group's businesses operating and the correspondence and agreements reached with tax authorities. We developed our own independent range of potential provisions for the Group's transfer pricing tax exposures, based on the evidence we obtained, and compared management's provision to our range.</p> <p>We assessed whether the Group's disclosures, detailing the year-end status of material open tax inquiries, adequately disclose relevant facts and circumstances and potential liabilities of the Group.</p> <p>The audit procedures were designed and led by the Group audit team, with support from component teams whose work was reviewed by the Group audit team.</p>

Key observations communicated to the Audit Committee

Based on the procedures performed, we consider the amounts provided are reasonable. We consider the Group's tax disclosures are also appropriate.

We conclude that the Group's approach to judgements for uncertain tax positions is balanced and that the approach in calculating the transfer pricing provisions is reasonable based on our assessment of the range of potential outcomes and the latest status of tax audits.

Risk	Our response to the risk
<p>Litigation</p> <p>Refer to note 30 of the consolidated financial statements 'contingent liabilities'.</p> <p>There are a number of ongoing legal cases in different jurisdictions relating to competition, product liability, intellectual property and commercial litigation. Judgements are involved in determining the likelihood of a probable outflow occurring from legal cases, together with the estimate of the likely financial cost.</p> <p>Given this judgement, there is a risk that legal provisions are misstated or that contingent liabilities are inadequately disclosed.</p> <p>Specifically, our audit risk relates to legal cases for which the financial cost to the business could be material, and any cases which could indicate non-compliance with the legal and regulatory frameworks with which the Group is required to comply. The most notable judgments relate to the following cases:</p> <p>In the US, tobacco-related litigation is managed separately by the Master Settlement Agreement ("MSA"). The litigation revolves around whether ITG Brands used "reasonable best efforts" to join four Previously Settled States ("PSS") to make settlement payments on certain US brands acquired in June 2015.</p>	<p>We assessed the processes and controls over litigation operated by management at Group, by walking through the process from identification of potential litigation to the evaluation of probability of outcome and the recording of a provision or disclosure of a contingent liability.</p> <p>We inspected Imperial's litigation log and communications to the Executive Leadership Team and met with Group Finance, Group General Legal Counsel and the Group's external legal counsel to discuss the developments in significant cases.</p> <p>We requested, received and read letters received directly from the management's external legal counsel that evaluated the current status of legal proceedings and quantified the estimate of any economic outflow arising from settlement of the litigation. For certain cases we involved legal specialists or met with external legal counsel to further our understanding and assess potential outcomes.</p>

Risk	Our response to the risk
<p>Separately, the Group, and other companies in the tobacco sector, are facing inquiries by competition authorities in a number of markets. The Group is receiving legal advice in relation to these matters. The accounts reflect the probability of any outflow arising.</p> <p>In 2020 the Company received a lawsuit under the Helms-Burton legislation relating to its alleged use of property allegedly confiscated by the Cuban state in the early 1960s. At the time the company received the lawsuit, it was subject to the EU law known as the EU Blocking Statute, which conflicts with the Helms-Burton legislation and impacted how the company might respond to the lawsuit. The company therefore obtained a stay of the lawsuit from the US Court so that it could seek authorisation from the European Commission to defend against the lawsuit or, at a minimum, to file and litigate a motion to dismiss. The UK exited the European Union on 31 December 2020, prior to any action by the European Commission on the Company's application for authorisation. Following the UK's exit from the European Union, the Company's application to the European Commission became moot, but the EU Blocking Statute formed part of EU law retained by the UK, giving rise to a continuing conflict with the Helms-Burton legislation. The Company therefore applied for and received authorisation from the UK Department for International Trade in 2021 to allow it to file and litigate a motion to dismiss the lawsuit. The Company has subsequently filed its motion to dismiss with the US Court. Consequently, management determined that an outflow of resources is possible and therefore disclosed this matter as a contingent liability.</p> <p>In the UK, in late 2020 a claim was filed in the UK High Court against the Company and five subsidiaries by a group of tobacco farm workers. The claim is unquantified. The Group has not yet been required to file their defence. However, the Group intends to defend the claim in full. Consequently, management determined that an outflow of resources is possible and therefore disclosed this matter as a contingent liability.</p> <p>In Morocco, from 2005, a number of legal claims have been brought against Société Marocaine Des Tabacs (SMT), a subsidiary of a Group company, disputing a reduction to retirees' pensions. These cases have been in the courts for several years. The Group was notified in the year that 36 cases were reviewed by the Cour de Cassation (Supreme Court) and were decided against SMT, and in favour of the retirees. SMT has not received the written judgment of the Supreme Court following this decision. All cases decided by the Supreme Court are unquantified. Management determined that an outflow of resources is possible and therefore disclosed this matter as a contingent liability.</p> <p>Refer to the audit committee report (page 115); accounting policies (note 1); accounting estimates and judgements (note 2) of the consolidated financial statements.</p>	<p>We evaluated whether any of the fines levied or ongoing litigation cases gave rise to evidence that there had been instances of non-compliance with the relevant laws and regulations.</p> <p>We assessed whether the Group's disclosures detailing contingent liabilities and financial commitments adequately disclose relevant facts and circumstances and potential liabilities of the Group.</p> <p>The audit procedures were designed and led by the Group audit team, with support from component teams whose work was reviewed by the Group audit team.</p>

Key observations communicated to the Audit Committee

Having met with internal Legal Counsel and received responses from external lawyers, we consider that where an economic outflow is probable management have appropriately booked a provision. For those cases which we consider meet the criteria of a contingent liability we concluded that sufficient disclosure exists in the annual report to allow users to understand the full range of exposures facing the company, where that is possible.

In the prior year, our auditor's report included the following key audit matters, which have not been included as key audit matters for the current year audit:

- "The impact of COVID-19 on the Group's going concern assessment". In the current year, the effects of COVID-19 have not had a pervasive impact on the financial statements, including the going concern assessment and other key areas of estimation and judgement.
- "Sale of Premium Cigar division". This key audit matter related to the application of judgement in determining the appropriate accounting treatment for assets held for sale. The share sale completed on 29 October 2020.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC - CONTINUED

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £148 million (2020: £111 million), which is 5% (2020: 5%) of profit before tax, adjusted for one-off gain on disposal of subsidiaries. We consider that this basis provides the most relevant performance measure to the stakeholders of the Group.

Starting basis	• Profit before tax – £3,238m
Adjustments	• Adjust for profit on disposal of subsidiaries – £281m
Materiality	• Total profit before tax, adjusted for one-off, non recurring items £2,957m • Materiality of £148m (5% of materiality basis)

We determined materiality for the Parent Company to be £275 million (2020: £123 million), which is 2% (2020: 2%) of net assets. In performing our procedures, materiality was capped at the Group allocated materiality of £27 million (2020: £25 million).

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £74m (2020: £55m). We have set performance materiality at this percentage due to the level of adjustments identified in the prior period.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £7m to £39m (2020: £6m to £30m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £7m (2020: £5.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 – 146, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 106;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on pages 92 to 93;
- Directors' statement on fair, balanced and understandable set out on page 106;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 82 to 91;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 80 to 81; and;
- The section describing the work of the audit committee set out on pages 111 to 119

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 146, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC - CONTINUED

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union, United Kingdom Generally Accepted Accounting Practice, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax laws and regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety, employee matters and country-specific regulations on tobacco control.
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and attendance at meetings of the Audit Committee, as well as consideration of the results of our audit procedures across the Group.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud and assessing whistleblowing incidences for those with a potential financial reporting impact. Where necessary, our procedures included our forensic investigation specialists. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of Group management, those charged with governance and legal counsel, as well as journal entry testing, with a focus on manual consolidation journals and journals indicating significant or unusual transactions based on our understanding of the business. Through our testing we challenged the assumptions and judgements made by management in respect of significant one-off transactions in the financial year and significant accounting estimates as referred to in the key audit matters section above. At a component level, our full and specific scope component audit team's procedures included enquiries of component management; journal entry testing; and focused testing, including in respect of the key audit matter of revenue recognition. We also leveraged our data analytics platform in performing our work on the order to cash and purchase to pay processes to assist in identifying higher risk transactions for testing.
- Where we identified potential non-compliance with laws and regulations, we developed an appropriate audit response and communicated directly with components impacted. Our procedures involved: understanding the process and controls to identify non-compliance, inquiring of internal and external legal counsel, performing an analysis of press reporting on these matters, understanding the fact patterns in each case and documenting the positions taken by management, and using specialists to support us in concluding on the matters identified.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the Audit Committee, we signed an engagement letter on 15 January 2020. We were appointed by the shareholders at the AGM on 5 February 2020 to audit the financial statements for the year ending 30 September 2020 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ending 2020 to 2021.

- The audit opinion is consistent with the additional report to the audit committee

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

ANDREW WALTON (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF ERNST & YOUNG LLP, STATUTORY AUDITOR
London
15 November 2021

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September 2021

£ million unless otherwise indicated	Notes	2021	2020
Revenue	3	32,791	32,562
Duty and similar items		(16,229)	(15,562)
Other cost of sales		(10,535)	(10,420)
Cost of sales		(26,764)	(26,382)
Gross profit		6,027	6,180
Distribution, advertising and selling costs		(2,118)	(2,329)
Acquisition and disposal costs		(17)	(26)
Profit on disposal of subsidiaries	11	281	–
Amortisation and impairment of acquired intangibles	12/15	(450)	(523)
Excise tax provision	8	1	20
Fair value adjustment of loan receivable		15	(62)
Restructuring costs	5	(257)	(205)
Other expenses		(336)	(324)
Administrative and other expenses		(763)	(1,120)
Operating profit	4	3,146	2,731
Investment income		1,060	770
Finance costs		(979)	(1,380)
Net finance income/(costs)	6	81	(610)
Share of profit of investments accounted for using the equity method	15	11	45
Profit before tax	4	3,238	2,166
Tax	8	(331)	(608)
Profit for the year		2,907	1,558
Attributable to:			
Owners of the parent		2,834	1,495
Non-controlling interests		73	63
Earnings per ordinary share (pence)			
– Basic	10	299.9	158.3
– Diluted	10	299.1	158.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2021

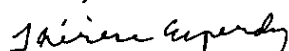
£ million	Notes	2021	2020
Profit for the year		2,907	1,558
Other comprehensive income			
Exchange movements		(680)	151
Exchange movements recycled to profit and loss upon disposal of subsidiaries	11	(337)	–
Current tax on hedge of net investments and quasi-equity loans		(105)	(10)
Deferred tax on hedge of net investments and quasi-equity loans		(12)	(80)
Items that may be reclassified to profit and loss		(1,134)	61
Net actuarial gains on retirement benefits	24	41	277
Current tax relating to net actuarial gains on retirement benefits		2	–
Deferred tax relating to net actuarial gains on retirement benefits		(21)	(53)
Items that will not be reclassified to profit and loss		22	224
Other comprehensive (loss)/income for the year, net of tax		(1,112)	285
Total comprehensive income for the year		1,795	1,843
Attributable to:			
Owners of the parent		1,761	1,762
Non-controlling interests		34	81
Total comprehensive income for the year		1,795	1,843

CONSOLIDATED BALANCE SHEET

at 30 September

£ million	Notes	2021	2020
Non-current assets			
Intangible assets	12	16,674	18,160
Property, plant and equipment	13	1,715	1,899
Right of use assets	14	242	293
Investments accounted for using the equity method	15	88	117
Retirement benefit assets	24	1,046	940
Trade and other receivables	17	62	57
Derivative financial instruments	21/22	391	813
Deferred tax assets	23	564	381
State aid tax recoverable	8	101	–
		20,883	22,660
Current assets			
Inventories	16	3,834	4,065
Trade and other receivables	17	2,749	2,638
Current tax assets	8	234	206
Cash and cash equivalents	18	1,287	1,626
Derivative financial instruments	21/22	68	53
Current assets held for disposal	11	35	1,062
		8,207	9,650
Total assets		29,090	32,310
Current liabilities			
Borrowings	20	(1,107)	(1,442)
Derivative financial instruments	21/22	(62)	(41)
Lease liabilities	21	(57)	(64)
Trade and other payables	19	(9,106)	(10,170)
Current tax liabilities	8	(253)	(350)
Provisions	25	(188)	(220)
Current liabilities held for disposal	11	(35)	(38)
		(10,808)	(12,325)
Non-current liabilities			
Borrowings	20	(8,715)	(10,210)
Derivative financial instruments	21/22	(984)	(1,641)
Lease liabilities	20/21	(194)	(235)
Trade and other payables	19	(7)	(5)
Deferred tax liabilities	23	(1,037)	(924)
Retirement benefit liabilities	24	(1,199)	(1,256)
Provisions	25	(206)	(196)
		(12,342)	(14,467)
Total liabilities		(23,150)	(26,792)
Net assets		5,940	5,518
Equity			
Share capital	26	103	103
Share premium and capital redemption		5,837	5,837
Retained earnings		(788)	(2,364)
Exchange translation reserve		200	1,295
Equity attributable to owners of the parent		5,352	4,871
Non-controlling interests		588	647
Total equity		5,940	5,518

The financial statements on pages 160 to 234 were approved by the Board of Directors on 15 November 2021 and signed on its behalf by:



THÉRÈSE ESPERDY
CHAIRMAN



LUKAS PARAVICINI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2021

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 1 October 2020	103	5,837	(2,364)	1,295	4,871	647	5,518
Profit for the year	–	–	2,834	–	2,834	73	2,907
Exchange movements on retranslation of net assets	–	–	–	(1,034)	(1,034)	(39)	(1,073)
Exchange movements on net investment hedges	–	–	–	476	476	–	476
Exchange movements on quasi-equity loans	–	–	–	(83)	(83)	–	(83)
Exchange movements recycled to profit and loss upon disposal of subsidiaries	–	–	–	(337)	(337)	–	(337)
Current tax on hedge of net investments and quasi-equity loans	–	–	–	(105)	(105)	–	(105)
Deferred tax hedge of net investments and quasi-equity loans	–	–	–	(12)	(12)	–	(12)
Net actuarial gains on retirement benefits	–	–	41	–	41	–	41
Current tax relating to net actuarial gains on retirement benefits	–	–	2	–	2	–	2
Deferred tax relating to net actuarial gains on retirement benefits	–	–	(21)	–	(21)	–	(21)
Other comprehensive income	–	–	22	(1,095)	(1,073)	(39)	(1,112)
Total comprehensive income	–	–	2,856	(1,095)	1,761	34	1,795
Transactions with owners							
Costs of employees' services compensated by share schemes	–	–	25	–	25	–	25
Dividends paid	–	–	(1,305)	–	(1,305)	(93)	(1,398)
At 30 September 2021	103	5,837	(788)	200	5,352	588	5,940
At 1 October 2019	103	5,837	(2,255)	1,252	4,937	647	5,584
Profit for the year	–	–	1,495	–	1,495	63	1,558
Exchange movements on retranslation of net assets	–	–	–	(130)	(130)	18	(112)
Exchange movements on net investment hedges	–	–	–	12	12	–	12
Exchange movements on quasi-equity loans	–	–	–	251	251	–	251
Current tax on quasi-equity loans	–	–	–	(10)	(10)	–	(10)
Deferred tax on quasi-equity loans	–	–	–	(80)	(80)	–	(80)
Net actuarial gains on retirement benefits	–	–	277	–	277	–	277
Deferred tax relating to net actuarial losses on retirement benefits	–	–	(53)	–	(53)	–	(53)
Other comprehensive income	–	–	224	43	267	18	285
Total comprehensive income	–	–	1,719	43	1,762	81	1,843
Transactions with owners							
Costs of employees' services compensated by share schemes	–	–	20	–	20	–	20
Current tax on share-based payments	–	–	1	–	1	–	1
Repurchase of shares	–	–	(92)	–	(92)	–	(92)
Changes in non-controlling interests (note 12)	–	–	(4)	–	(4)	4	–
Dividends paid	–	–	(1,753)	–	(1,753)	(85)	(1,838)
At 30 September 2020	103	5,837	(2,364)	1,295	4,871	647	5,518

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 September 2021

€ million	2021	2020
Cash flows from operating activities		
Operating profit	3,146	2,731
Dividends received from investments accounted for under the equity method	4	43
Depreciation, amortisation and impairment	815	910
Profit on disposal of non-current assets	2	(2)
Profit on disposal of subsidiary	(281)	–
Post-employment benefits	(63)	(88)
Costs of employees' services compensated by share schemes	25	20
Fair value adjustment of loan receivable	(15)	63
Movement in provisions	18	(121)
Operating cash flows before movement in working capital	3,661	3,556
Decrease in inventories	70	67
(Increase)/decrease in trade and other receivables	(201)	241
(Decrease)/increase in trade and other payables	(533)	734
Movement in working capital	(664)	1,042
Tax paid	(820)	(568)
Net cash flows generated from operating activities	2,167	4,030
Cash flows from investing activities		
Interest received	15	9
Loan to third parties	–	(3)
Proceeds from the sale of non-current assets	50	28
Net proceeds from sale of subsidiaries (note 11)	845	–
Deposit received from sale of asset held for sale	–	83
Purchase of non-current assets	(200)	(302)
Purchase of brands and operations (note 12)	–	(146)
Net cash used in investing activities	710	(331)
Cash flows from financing activities		
Interest paid	(415)	(429)
Lease liabilities paid	(69)	(72)
Increase in borrowings	858	1,240
Repayment of borrowings	(2,224)	(3,096)
Cash flows relating to derivative financial instruments	41	(23)
Repurchase of shares	–	(92)
Dividends paid to non-controlling interests	(93)	(85)
Dividends paid to owners of the parent	(1,305)	(1,753)
Net cash used in financing activities	(3,207)	(4,310)
Net decrease in cash and cash equivalents	(330)	(611)
Cash and cash equivalents at start of year	1,626	2,286
Effect of foreign exchange rates on cash and cash equivalents	(9)	13
Transferred to held for disposal (note 11)	–	(62)
Cash and cash equivalents at end of year	1,287	1,626

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union.

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, and on a going concern basis.

BASIS FOR GOING CONCERN

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, and on a going concern basis. The Group's policy is to ensure that we always have sufficient capital markets funding and committed bank facilities in place to meet foreseeable peak borrowing requirements.

The Directors recognise that the current environment brings uncertainty due to the COVID-19 pandemic; however, over the last 18 months, the Group has effectively managed operations across the world, and has proved it has an established mechanism to operate efficiently despite the uncertainty. The Directors consider that a one-off discrete event with immediate cash outflow is of greater concern to short term liquidity than any effect from the on-going COVID-19 pandemic.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios that may affect the business. These included scenarios which examined the implications of:

- A one-off discrete event resulting in immediate cash outflow such as accelerated duty and tax payments of circa £900 million or non-receipt of the Premium Cigar Division (PCD) deferred consideration of circa £60 million.
- A rapid and lasting deterioration to the Group's profitability because markets become closed to tobacco products or there are sustained failures to our tobacco manufacturing and supply chains. These assumed a permanent reduction in profitability of 15 per cent from 1 January 2022.
- The additional impact of potential bad debt risks arising from a recession of circa £170 million.
- The withdrawal of facilities that provide receivables factoring of circa £670 million.

The scenario planning also considered mitigating actions including reductions to capital expenditure and dividend payments. There are additional actions that were not modelled but could be taken including other cost mitigations such as staff redundancies, retrenchment of leases, and discussions with lenders about capital structure.

Under a worst-case scenario, where the largest envisaged downside scenarios all take place at the same time the Group would have sufficient headroom until February 2022. The Group believes this worst-case scenario to be highly unlikely given the relatively small impact on our trading performance and bad debt levels during the COVID-19 pandemic. In addition, the group has a number of additional mitigating actions available that could be implemented should such a scenario arise.

Based on the review of future cash flows covering the period through to March 2023, and having assessed the principal risks facing the Group, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet their operational needs from the date of this Report through to 31 March 2023 and concludes that it is appropriate to prepare the financial statements on a going concern basis.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period and of assets, liabilities and contingent liabilities at the balance sheet date. The key estimates and assumptions are set out in note 2 Critical Accounting Estimates and Judgements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and judgements. This could affect future financial statements as the original estimates and judgements are modified, as appropriate, in the year in which the circumstances change.

Imperial Brands PLC (the Company) provides guarantees to a number of subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2021. See note VII Guarantees of the Imperial Brands Plc financial statements for further details.

The principal accounting policies, which have been applied consistently other than where new policies (detailed below) have been adopted, are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the results of the Company, a public company limited by shares, incorporated in England and Wales, and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements. The Company's registered number is 3236483 and its registered address is 121 Winterstoke Road, Bristol, BS3 2LL.

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

JOINT VENTURES

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The financial statements of joint ventures are included in the Group financial statements using the equity accounting method, with the Group's share of net assets included as a single line item entitled 'Investments accounted for using the equity method'. In the same way, the Group's share of earnings is presented in the consolidated income statement below operating profit entitled 'Share of profit of investments accounted for using the equity method'.

FOREIGN CURRENCY

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intercompany loans. Gains or losses on these hedges that are regarded as highly effective are transferred to other comprehensive income, where they offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

The Group's financial results are principally exposed to euro and US dollar exchange rates, which are detailed in the table below.

Foreign exchange rate versus GBP	2021		2020	
	Closing rate	Average rate	Closing rate	Average rate
Euro	1.1621	1.1451	1.0960	1.1393
US Dollar	1.3456	1.3690	1.2832	1.2753

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

REVENUE RECOGNITION

For the Tobacco & Next Generation Products (Tobacco & NGP) business, Revenue comprises the invoiced value for the sale of goods net of sales taxes, rebates and discounts. Revenue is based on the completion of performance obligations that constitute the delivery of goods. The performance obligation is recognised as complete at the point in time when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. The distribution business also recognises revenue associated with logistics services, recognised on the basis of the invoiced value for the provision of these services net of sales taxes, rebates and discounts. The performance obligations associated with distribution services, which include fees for distributing certain third party products, are linked to the successful distribution of products for customers.

The Group recognises income arising from the licensing of intellectual property, occurring in the ordinary course of business, which is treated as revenue. Licensing revenue will be recognised over the period of the licence. The licences granted are distinct from other promises in the contract.

For the Distribution business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts when goods have been delivered or distribution services have been provided. The Distribution business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Payments are made to both direct and indirect customers for rebates, discounts and other promotional activities. Direct customers are those to which the Group supplies goods or services. Indirect customers are other entities within the supply chain to the end consumer. Rebates and discounts are deducted from Revenue. Where the contract with customers has an entitlement to variable consideration due to the existence of retrospective rebates and discounts, revenue is estimated based on the amount of consideration expected to be received. This estimation is a determination of the most likely amount to be received using all known factors including historic experience. Typically there is a high degree of certainty over the amount of retrospective rebates/discounts paid due to relatively low year on year variations in the volume and pattern of product sales. As the provision of distribution services typically involves product delivery tasks undertaken in a short period of time, revenue and any associated rebates and discounts relating to these services do not normally span an accounting year end.

Payments for promotional activities will also be deducted from Revenue where the payments relate to goods or service that are closely related to or indistinct from associated sales of goods or services to that customer. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (i.e. excluded from revenues reported in the Group's consolidated income statement).

DUTY AND SIMILAR ITEMS

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in Revenue and in Cost of sales in the consolidated income statement. Duty is regarded as a sales tax and excluded from revenue where:

- duty becomes payable to the tax authority when the goods are sold;
- there is an obligation to change the sales price when a change in the rate of duty is imposed; and
- there is a requirement to identify the duty separately on sales information such as invoices.

Payments made in the USA under the Master Settlement Agreement are recognised in other cost of sales, for further disclosure see note 30 contingent liabilities.

TAXES

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Uncertain tax positions are assessed and measured on an issue by issue basis within the jurisdictions that we operate using management's estimate of the most likely outcome. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach. The Group recognises interest on late paid taxes as part of financing costs. The Group recognises penalties, if applicable, as part of administrative and other expenses.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

DIVIDENDS

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.

INTANGIBLE ASSETS – GOODWILL

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. If any negative goodwill arises this is recognised immediately in the income statement. For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

INTANGIBLE ASSETS – OTHER

Other intangible assets are initially recognised in the consolidated balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost less accumulated amortisation and impairment. The Group does not operate a revaluation model and therefore assets are not subject to ongoing revaluations.

These assets consist mainly of acquired trademarks, intellectual property, product development, concessions and rights, acquired customer relationships and computer software. The Davidoff cigarette trademark and some premium cigar trademarks are considered by the Directors to have indefinite lives based on the fact that they are established international brands with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. The carrying value of Davidoff is subject to an annual impairment review under the requirements of IAS 36 as the Group does not currently foresee a limit to the period over which the asset is expected to generate net cash inflows. The most recent assessment indicates that the carrying value is not impaired.

Intellectual property (including trademarks), product development, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

Intellectual property	5 – 30 years	straight line
Supply agreements	3 – 15 years	straight line
Software	3 – 10 years	straight line
Product development	3 – 10 years	straight line

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised in the consolidated balance sheet at historical cost or at their initial fair value where they are acquired as part of an acquisition, subject to depreciation or impairment. The Group does not operate a revaluation model and therefore assets are not subject to ongoing revaluations.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write down the initial cost of each asset to its residual value over its estimated useful life as follows:

Property	up to 50 years	straight line
Plant and equipment	2 – 20 years	straight line/reducing balance
Fixtures and motor vehicles	2 – 15 years	straight line

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

FINANCIAL INSTRUMENTS AND HEDGING

Receivables held under a hold to collect business model are stated at amortised cost. Receivables held under a hold to sell business model, which are expected to be sold via a non-recourse factoring arrangement are separately classified as fair value through profit or loss, within trade and other receivables.

The calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include accrued interest receivable and payable where relevant. However, as the Group has decided (as permitted under IFRS 9) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the consolidated income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

Collateral transferred under the terms and conditions of collateral appendix documents in respect of certain derivatives are netted off the carrying value of those derivatives in the consolidated balance sheet.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

RIGHT OF USE ASSETS

The Group has lease contracts relating to property and other assets (which predominantly relates to motor vehicles).

The Group recognises right of use assets, at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

LEASE LIABILITIES

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments which depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments include the exercise of purchase options if determined reasonably certain to be exercised and termination payments if the lease term reflects the exercise of an option to terminate.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate, defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment, at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accumulation of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight line basis over the lease term in cost of sales or distribution, advertising and selling costs.

SHORT TERM LEASES, LEASES OF LOW VALUE ASSETS AND PRACTICAL EXPEDIENTS APPLIED

The Group has applied a number of practical expedients permitted by IFRS 16. These include:

- the exclusion of leases where the lease term ends within 12 months of the commencement of the lease or date of initial application; and
- the exclusion of leases of low value assets, defined as those of less than US\$5,000.

IFRS 16 was applied using the modified retrospective method, to contracts that were previously identified as operating leases in accordance with IAS 17 and IFRIC 4. The Group has elected to:

- apply hindsight in determining the lease term if the contract contains options to extend or terminate the lease;
- exclude initial direct costs from the measurement of the right of use asset; and
- use a single discount rate to a portfolio of leases with reasonably similar characteristics

These elections were only applied on transition to IFRS 16 and have not been applied to new leases following adoption of the standard.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory is considered for obsolescence or other impairment issues and an associated provision is booked where necessary.

Leaf tobacco inventory which has an operating cycle that exceeds 12 months is classified as a current asset, consistent with recognised industry practice.

PROVISIONS

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

ASSETS HELD FOR SALE

Assets held for sale arise once a disposal process has advanced sufficiently to meet the requirements of IFRS 5. Assets identified as held for sale are considered for impairment of their carrying value against expected proceeds. The assets and liabilities are presented separately on the balance sheet as assets held for disposal and liabilities held for disposal.

CONTINGENT LIABILITIES

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group. Contingent liabilities are not recognised, only disclosed, unless the possibility of a future outflow of resources is considered remote, or where a disclosure would seriously prejudice the position of the Group.

RETIREMENT BENEFIT SCHEMES

For defined benefit schemes, the amount recognised in the consolidated balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated *annually by independent actuaries using the projected unit credit method*. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

SHARE-BASED PAYMENTS

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

TREASURY SHARES

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to owners of the parent until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases equity attributable to owners of the parent. When such shares are cancelled they are transferred to the capital redemption reserve.

Where the group enters into a contract with a third party that contains an obligation to re-purchase its own shares for cash or another financial asset, a financial liability is recognised for the present value of the redemption amount. One example is an obligation under a forward contract to re-purchase shares in Imperial Brands PLC for cash. The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from equity. Subsequently, the financial liability is measured in accordance with IFRS 9, and is revalued at subsequent reporting points as appropriate. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

USE OF ADJUSTED PERFORMANCE MEASURES

Management believes that non-GAAP or adjusted performance measures provide an important comparison of business performance and reflect the way in which the business is controlled. The adjusted performance measures seek to remove the distorting effects of a number of significant gains or losses arising from transactions which are not directly related to the ongoing underlying performance of the business and may be non-recurring events or not directly within the control of management.

Accordingly, adjusted performance measures of operating profit, net finance costs, profit before tax, tax, attributable earnings and earnings per share exclude, where applicable, acquisition and disposal costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains and losses on financial instruments, and related tax effects and tax matters. Reconciliations between adjusted and reported operating profit are included within note 6 to the financial statements, adjusted and reported net finance costs in note 6, adjusted and reported tax in note 8, and adjusted and reported earnings per share in note 10. There are also other adjusted reported measures which are defined below.

The adjusted performance measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The items excluded from adjusted performance results are those which are one-off in nature or items which arose due to acquisitions and are not influenced by the day to day operations of the Group, and the movements in the fair value of financial instruments which are marked to market and not naturally offset. Adjusted net finance costs also excludes all post-employment benefit net finance cost since pension assets and liabilities and redundancy and social plan provisions do not form part of adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt. The adjusted performance measures are used by management to assess the Group's financial performance and aid comparability of results year on year.

ADJUSTED OPERATING PROFIT

Adjusted operating profit is calculated as operating profit amended for a number of adjustments, the principal changes are detailed below. This measure is separately calculated and disclosed for Tobacco, NGP and Distribution where appropriate. In addition, adjustments have been made to present this measure on an organic basis to allow year on year comparability (see organic adjustments below). A reconciliation can be found in note 6.

ACQUISITION AND DISPOSAL COSTS / PROFIT ON DISPOSAL OF SUBSIDIARIES

Adjusted performance measures exclude costs and profits or losses associated with major acquisitions and disposals as they do not relate to the day to day operational performance of the Group. Acquisition costs and profits or losses on disposal can be significant in size and are one-off in nature. Exclusion of these items allows a clearer presentation of the day to day underlying income and costs of the business. Where applicable and not reported separately, this includes changes in contingent or deferred consideration.

AMORTISATION AND IMPAIRMENT OF ACQUIRED INTANGIBLES

Acquired intangibles are amortised over their estimated useful economic lives where these are considered to be finite. Acquired intangibles considered to have an indefinite life are not amortised. Any negative goodwill arising is recognised immediately in the income statement. We exclude from our adjusted performance measures the amortisation and impairment of acquired intangibles, other than software and internally generated intangibles, and the deferred tax associated with amortisation of acquired intangibles. Gains and losses on the sale of intellectual property are removed from adjusted operating profit.

It is recognised that there may be some correlation between the amortisation charges derived from the acquisition value of acquired intangibles, and the subsequent future profit streams arising from sales of associated branded products. However, the amortisation of intangibles is not directly related to the operating performance of the business. Conversely, the level of profitability of branded products is directly influenced by day to day commercial actions, with variations in the level of profit derived from branded product sales acting as a clear indicator of performance. Given this, the Group's view is that amortisation and impairment charges do not clearly correlate to the ongoing variations in the commercial results of the business and are therefore excluded to allow a clearer view of the underlying performance of the organisation. The deferred tax is excluded on the basis that it will only crystallise upon disposal of the intangibles and goodwill. The related current cash tax benefit is retained in the adjusted measure to reflect the ongoing tax benefit to the Group.

PRESENTATION OF AUXLY CANNABIS GROUP INC.

As the movement in the fair value of loan receivables associated with the Auxly Cannabis Group Inc. investment has the potential to be significant the Group has disclosed a fair value movement separately on the face of the income statement.

RESTRUCTURING COSTS

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation and optimisation initiatives together with their related tax effects are excluded from our adjusted earnings measures. These include restructuring costs incurred as part of fundamental multi-year transformational change projects but do not include costs related to ongoing cost reduction activity. These costs are all Board approved, and include impairment of property, plant and equipment which are surplus to requirements due to restructuring activity. These costs are required in order to address structural issues associated with operating within the Tobacco sector that have required action to both modernise and right-size the organisation, ultimately delivering an operating model suitable for the future of the business. The Group's view is that as these costs are both significant and one-off in nature, excluding them allows a clearer presentation of the underlying costs of the business.

ADJUSTED NET FINANCE COSTS

Adjusted net finance costs excludes the movements in the fair value of financial instruments which are marked to market and not naturally offset. This measure also excludes all post-employment benefit net finance costs since pension assets and liabilities and redundancy and social plan provisions do not form part of adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt. A reconciliation can be found in note 6. The detail of these adjustments is given below.

FAIR VALUE GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS AND EXCHANGE GAINS AND LOSSES ON BORROWINGS

IFRS 9 requires that all derivative financial instruments are recognised in the consolidated balance sheet at fair value, with changes in the fair value being recognised in the consolidated income statement unless the instrument satisfies the hedge accounting rules under IFRS and the Group chooses to designate the derivative financial instrument as a hedge.

The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IFRS 9 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IFRS 9, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments. However, the Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations, as permitted by IFRS 9, in order to reduce income statement volatility.

We exclude fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings from adjusted net finance costs. Fair value gains and losses on the interest element of derivative financial instruments are excluded as there is no direct natural offset between the movements on derivatives and the interest charge on debt in any one period, as the derivatives and debt instruments may be contracted over different periods, although they will reverse over time or are matched in future periods by interest charges. The fair value gains on derivatives are excluded as they can introduce volatility in the finance charge for any given period.

Fair value gains and losses on the currency element of derivative financial instruments and exchange gains and losses on borrowings are excluded as the relevant foreign exchange gains and losses on the instruments in a net investment hedging relationship are accumulated as a separate component of other comprehensive income in accordance with the Group's policy on foreign currency.

Fair value movements arising from the revaluation of contingent consideration liabilities are adjusted out where they represent one-off acquisition costs that are not linked to the current period underlying performance of the business. Fair value adjustments on loans receivable measured at fair value are excluded as they arise due to counterparty credit risk changes that are not directly related to the underlying commercial performance of the business.

POST-EMPLOYMENT BENEFITS NET FINANCING COST

The net interest on defined benefit assets or liabilities, together with the unwind of discount on redundancy, social plans and other long-term provisions are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures, as they primarily represent charges associated with historic employee benefit commitments, rather than the ongoing current period costs of operating the business.

ADJUSTED TAX CHARGE

The adjusted tax charge is calculated by amending the reported tax charge for significant one-off tax charges or credits arising from:

- prior period tax items (including re-measurement of deferred tax balances on a change in tax rates); or
- a provision for uncertain tax items not arising in the normal course of business; or
- newly enacted taxes in the year; or
- tax items that are closely related to previously recognised tax matters, and are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

The recognition and utilisation of deferred tax assets relating to losses not historically generated in the normal course of business are excluded on the same basis.

A reconciliation can be found in note 8.

The adjusted tax rate is calculated as the adjusted tax charge divided by the adjusted profit before tax.

ADJUSTED EARNINGS

Adjusted earnings is calculated by amending the reported basic earnings for all of the adjustments recognised in the calculation of the adjusted operating profit, adjusted finance costs and adjusted tax charge metrics as detailed above. In addition, adjustments have been made to present this measure on an organic basis to allow year on year comparability (see organic adjustments). Adjusted earnings per share and organic earnings per share are calculated by providing adjusted earnings and organic earnings by the weighted average number of shares. A reconciliation is provided in note 10.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

OTHER NON-GAAP MEASURES USED BY MANAGEMENT

NET REVENUE

Tobacco & Next Generation Products (NGP) net revenue comprises associated revenue less duty and similar items, excluding peripheral products. Management considers this an important measure in assessing the performance of Tobacco & NGP operations.

The Group recognises revenue on sales to Logista, a Group company, within its reported Tobacco & NGP revenue figure. As the revenue calculation includes sales made to Logista from other Group companies but excludes Logista's external sales, this metric differs from revenue calculated under IFRS accounting standards. For the purposes of Adjusted Performance Measures on Net Revenue we treat Logista as an arms length distributor on the basis that contractual rights are in line with other Third Party suppliers to Logista. Variations in the amount of inventory held by Logista results in a different level of revenue compared to that which is included within the income statement. For tobacco product sales, inventory level variations are normally not significant. A reconciliation can be found in note 3.

DISTRIBUTION NET REVENUE

Distribution net revenue comprises the Distribution segment revenue less the cost of distributed products. Management considers this an important measure in assessing the performance of Distribution operations. The eliminations in note 3 all relate to sales to Distribution. A reconciliation can be found in note 3.

ADJUSTED OPERATING CASH

Adjusted operating cash conversion is calculated as cash flow from operations pre-restructuring and before interest and tax payments less net capital expenditure relating to property, plant and equipment, software and intellectual property rights as a percentage of adjusted operating profit. A reconciliation can be found in the Group Financial Review on page 72.

ADJUSTED NET DEBT

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, lease commitments and the fair value of derivative financial instruments providing commercial hedges of interest rate risk. The adjusted net debt metric is used in monitoring performance against various debt management obligations including covenant compliance. A reconciliation can be found in note 31.

ORGANIC

To aid comparison of performance between years, the Group uses the term 'organic' in all years reported to exclude the impact of the Premium Cigar divestment, which completed on 29 October 2020. The organic performance comparison excludes the contribution of the Premium Cigar divestment in all years reported.

CASH CONVERSION

The Group uses cash conversion as a key metric for assessing underlying cash performance. Cash Conversion is calculated as cash flow from operations pre-restructuring and before interest and tax payments, less net capital expenditure relating to property, plant and equipment, software and intellectual property rights as a percentage of adjusted operating profit. A reconciliation can be found in note 6.

ADJUSTED OPERATING PROFIT MARGIN

Adjusted operating profit margin is adjusted operating profit divided by net revenue expressed as a percentage. This measure is separately calculated and disclosed for Tobacco, NGP and Distribution where appropriate. In addition, adjustments have been made to present this measure on an organic basis to allow year on year comparability (see organic adjustments). A reconciliation of adjusted operating profit can be found in note 6 and a reconciliation of net revenue can be found in note 3.

FREE CASH FLOW

Free cash flow is adjusted operating profit (as defined above) adjusted for certain cash and non cash items. The principal adjustments are depreciation, working capital movements, net capex, restructuring cash flows, tax cash flows, cash interest and minority interest dividends. A reconciliation can be found in the Group Financial Review on page 72.

RETURN ON INVESTED CAPITAL

Return on invested capital measures the effectiveness of capital allocation and is calculated by dividing adjusted operating profit after tax by the annual average of: intangible assets, property, plant and equipment, net assets held for sale, inventories, trade and other receivables and trade payables and other current liabilities.

The annual average is defined as the average of the opening and closing balance sheet values. A reconciliation can be found in the Group Financial Review on page 76.

NET DEBT TO EBITDA (MULTIPLE)

This is defined as adjusted net debt divided by adjusted EBITDA. Adjusted net debt is measured at balance sheet foreign exchange rates, with a full reconciliation shown in note 31. Adjusted EBITDA is calculated as adjusted operating profit plus amortisation, depreciation and impairments. A reconciliation of EBITDA can be found in the Group Financial Review on page 76. A reconciliation of adjusted net debt can be found in note 31.

ALL IN COST OF DEBT

This is defined as adjusted net finance costs (defined above) divided by the average net debt in the year (note 31). A reconciliation of adjusted net finance costs can be found in note 6.

CONSTANT CURRENCY

Constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations. We translate current year results at prior year foreign exchange rates. A reconciliation of all key metrics can be found in the Group Financial Review on page 73.

NEW ACCOUNTING STANDARDS

For the year ended 30 September 2021 the Group continued to apply international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRS, issued by the International Accounting Standards Board (IASB) and adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. From 1 October 2021, as a result of the UK leaving the European Union, the Group will prepare the consolidated financial statements in accordance with applicable international accounting standards, issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) and endorsed for use in the UK, referred to as 'UK-adopted IFRS'.

The following amendments to the accounting standards, issued by the IASB or IFRIC, have been adopted by the Group from 1 October 2020 with no impact on the group's consolidated results, financial position or disclosures:

- Amendments to References to the Conceptual Framework in IFRS
- Amendments to IFRS 3 – Definition of a Business
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IFRS 16 – Covid-19 – Related Rent Concessions
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 1)

Derivatives with a notional value of €3,233 million designated in net investment hedges will be impacted by the impending reforms to the calculation of the Interbank Offered Rates (IBOR). However, as discussed in Note 21 Financial Risk Management, only the undiscounted foreign currency spot exposures of these instruments are designated in the hedging relationship and therefore there will be no change to the effectiveness of the hedges due to the reform. Changes in the fair value of these derivatives attributable to changes in interest rates and the effect of discounting are recognised directly in profit or loss within the Finance costs line.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET IN ISSUE

The following standard and amendment, issued by the IASB has not been adopted by the Group:

- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 2) (effective in the year ending 30 September 2022)

Following the announcement of the discontinuation of GBP LIBOR at the end of 2021 and USD LIBOR discontinuation in 2023, the Company has amended its bank facility agreement to stop referencing GBP and USD LIBOR and instead reference the daily risk free rates of SONIA and SOFR respectively. All current GBP LIBOR derivatives will be changed to reference SONIA instead of GBP LIBOR by the end of 2021, then all USD LIBOR derivatives will be changed to reference SOFR instead of USD LIBOR during the remainder of fiscal year 2022. There are no changes pending for EUR derivatives.

There are also a number of other amendments and clarifications to IFRS, effective in future years. None of which are expected to significantly impact the group's consolidated results or financial position.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements associated with accounting entries which will be affected by future events. Estimates and judgements are continually evaluated based on historical experience, and other factors, including current information that helps form a forward-looking view of expected future outcomes.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability.

The actual amounts recognised in the future may deviate from these estimates and judgements. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

DETERMINATION OF USEFUL ECONOMIC LIFE OF INTANGIBLE ASSETS

For non-goodwill intangible assets, there are critical judgements required in determining whether the asset has an indefinite useful economic life, or not. The Davidoff trademark has a significant market share and positive cash flow growth expectations. There are no regulatory or contractual restrictions on the use of this trademark, and there are no plans to significantly redirect resources elsewhere which would reduce the value of this asset. Consequently, in the view of management, the Davidoff trademark does not have a foreseeable and definite end to its ability to generate future cash flows and hence it is not amortised. The carrying value of Davidoff is subject to an annual impairment review under the requirements of IAS 36 as Group does not currently foresee a limit to the period over which the asset is expected to generate net cash inflows. The most recent assessment indicates that the carrying value is not impaired.

AMORTISATION AND IMPAIRMENT OF INTANGIBLE ASSETS

For non-indefinite life assets, which are amortised, the useful economic life and recoverable amounts are estimated based upon the expectation of the amount and time period during which an intangible asset will support future cash flows. Due to estimation uncertainties the useful economic lives and associated amortisation rates have to be reviewed and revised where necessary. In addition, where there are indications that the current carrying value of an intangible asset is greater than its recoverable amount, impairment in the carrying value of the asset may be required. Factors considered important that could trigger an impairment review of intangible assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions materially change it is likely that materially different amounts could be reported in the Group's financial statements. Indefinite life intangible assets, including goodwill, are subject to annual impairment testing where an assessment of the carrying value of the asset against its recoverable amount is undertaken. There are long term uncertainties associated with estimating the valuation of the recoverable amount, particularly with regard to long term cash flow growth rates which are influenced by the future size and shape of the tobacco sector. While long term growth rates currently used in impairment assessments are based on current best estimates of future performance, there may be changes in these assumptions when conducting impairment tests in subsequent years. Details of goodwill and intangible asset impairment assessments are included in note 12.

INCOME TAXES

Judgement is involved in determining whether the Group is subject to a tax liability or not in line with tax law. Where liabilities exist, estimation is often required to determine the potential future tax payments. The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Consideration of the judgements surrounding certain tax positions are applicable to the Group and consideration of the valuation estimates related to tax provisions are given in note 8 to these financial statements.

LEGAL PROCEEDINGS AND DISPUTES

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment. Judgement is required as to whether a liability exists. Where a liability is determined there can be a degree of estimation of the potential level of damages expected. Key areas of judgement include consideration as to whether certain claims associated with the acquisition of certain brands and the likely outcome of a number of product liability claims. More detail as to the considered position on these claims is given in both note 30 of the financial statements and within the Directors' Report – update on Tobacco and e-vapour related litigation. To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

PROVISIONS

Provision accounting involves judgement as to whether a liability should be recognised and requires estimates of the quantum of any such liability. The Group holds provisions where appropriate in respect of estimated future economic outflows, principally for restructuring activity and excise tax, which arise due to past events. Estimates are based on management judgement and information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate. The main area of estimation risk relates to the estimation of restructuring provisions associated with various plans to transform the business. These include the cost of factory closures, scaling down of capacity and other structural changes to the business. These programmes are run as discrete projects with controls over the expected costs and the associated accounting impacts. The calculation of restructuring provisions includes estimation challenges relating to asset remediation costs, the valuation of disposals and termination costs. More details relating to the estimates associated with these restructuring programmes can be found in notes 5 and 25.

CONTROL OF LOGISTA

A key judgement relates to whether the Group has effective control of Logista sufficient that the Group can consolidate this entity within its Group accounts in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group holds 50.01 per cent of the voting shares. The Group has reviewed its control of Logista and that it is appropriate to consolidate this entity in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group continues to have Director presence on the Board of Logista, representing 4 out of 10 Directors. The Group has powers to control as set out in the Relationship Framework Agreement which specifies certain areas of operation reserved for shareholder approval and through these measures the Group is able to exercise control of Logista. The Group has therefore concluded that it continues to be appropriate to recognise Logista as a fully consolidated subsidiary.

3. SEGMENT INFORMATION

Imperial Brands comprises two distinct businesses – Tobacco & NGP and Distribution. The Tobacco & NGP business comprises the manufacture, marketing and sale of Tobacco & NGP and Tobacco & NGP-related products, including sales to (but not by) the Distribution business. The Distribution business comprises the distribution of Tobacco & NGP products for Tobacco & NGP product manufacturers, including Imperial Brands, as well as a wide range of non-Tobacco & NGP products and services. The Distribution business is run on an operationally neutral basis ensuring all customers are treated equally, and consequently transactions between the Tobacco & NGP and Distribution businesses are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

The function of Chief Operating Decision Maker (defined in IFRS 8), which is to review performance and allocate resources, is performed by the Board and the Chief Executive, who are regularly provided with information on our segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Board and the Chief Executive is adjusted operating profit. Segment balance sheet information is not provided to the Board or the Chief Executive.

Our reportable segments are Europe, Americas, Africa, Asia & Australasia (AAA) and Distribution. Operating segments are comprised of geographical groupings of business markets. The main Tobacco & NGP business markets within the Europe, Americas and AAA reportable segments are:

Europe – United Kingdom, Germany, Spain, France, Italy, Greece, Sweden, Norway, Belgium, Netherlands, Ukraine and Poland.

Americas – United States.

AAA – Australia, Japan, Russia, Saudi Arabia, Taiwan and our African markets including Algeria and Morocco.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

TOBACCO & NGP

£ million unless otherwise indicated	2021	2020
Revenue	23,863	23,973
Net revenue	7,610	7,985
Operating profit	2,991	2,587
Adjusted operating profit	3,308	3,288
Adjusted operating margin %	43.5	41.2

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	2021	2020
Adjusted operating profit	3,308	3,288
Acquisition and disposal costs	-	(26)
Profit on disposal of subsidiaries	281	-
Amortisation of acquired intangibles	(366)	(438)
Excise tax provision	1	20
Fair value adjustment of loan receivable	15	(62)
Restructuring costs	(249)	(195)
Operating profit	2,991	2,587

DISTRIBUTION

£ million unless otherwise indicated	2021	2020
Revenue	9,589	9,268
Distribution net revenue	1,069	1,015
Operating profit	148	131
Adjusted operating profit	258	226
Adjusted operating margin %	24.1	22.3

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	2021	2020
Adjusted operating profit	258	226
Acquisition and disposal costs	(17)	-
Amortisation of acquired intangibles	(85)	(85)
Restructuring costs	(8)	(10)
Operating profit	148	131

REVENUE

£ million	2021		2020	
	Total revenue	External revenue	Total revenue	External revenue
Tobacco & NGP				
Europe	14,720	14,059	14,395	13,716
Americas	3,393	3,393	3,371	3,371
Africa, Asia & Australasia	5,750	5,750	6,207	6,207
Total Tobacco & NGP	23,863	23,202	23,973	23,294
Distribution	9,589	9,589	9,268	9,268
Eliminations	(661)	-	(679)	-
Total Group	32,791	32,791	32,562	32,562

RECONCILIATION FROM TOBACCO & NGP REVENUE TO TOBACCO & NGP NET REVENUE

£ million	2021			2020		
	Tobacco	NCP	Total	Tobacco	NCP	Total
Revenue	23,664	199	23,863	23,757	216	23,973
Duty and similar items	(16,218)	(11)	(16,229)	(15,947)	(15)	(15,962)
Sale of peripheral products	(24)	-	(24)	(26)	-	(26)
Net Revenue	7,422	188	7,610	7,784	201	7,985

TOBACCO & NGP NET REVENUE

£ million	2021			2020		
	Tobacco	NGP	Total	Tobacco	NGP	Total
Europe	3,425	126	3,551	3,471	98	3,569
Americas	2,478	56	2,534	2,409	71	2,480
Africa, Asia & Australasia	1,519	6	1,525	1,904	32	1,936
Total Tobacco & NGP	7,422	188	7,610	7,784	201	7,985

PREMIUM CIGAR DIVESTMENT & ORGANIC NET REVENUE

£ million	2021	2020
Organic Net Revenue	7,589	7,738
Premium Cigar Divestment Net Revenue	21	247
Total Tobacco & NGP	7,610	7,985

RECONCILIATION FROM DISTRIBUTION REVENUE TO DISTRIBUTION NET REVENUE

£ million	2021	2020
Revenue	9,589	9,268
Cost of sales – Distribution	(8,520)	(8,253)
Distribution Net Revenue	1,069	1,015

ADJUSTED OPERATING PROFIT AND RECONCILIATION TO PROFIT BEFORE TAX

£ million	2021	2020
Tobacco & NGP		
Europe	1,670	1,582
Americas	1,037	1,032
Africa, Asia & Australasia	601	674
Total Tobacco & NGP	3,308	3,288
Distribution	258	225
Eliminations	7	13
Adjusted operating profit	3,573	3,527
Acquisition and disposal costs – Tobacco & NGP	–	(26)
Acquisition and disposal costs – Distribution	(17)	–
Profit on disposal of subsidiaries – Tobacco & NGP	281	–
Amortisation and impairment of acquired intangibles – Tobacco & NGP	(365)	(438)
Amortisation of acquired intangibles – Distribution	(85)	(85)
Excise tax provision – Tobacco & NGP	1	20
Fair value adjustment of loan receivable – Tobacco & NGP	15	(62)
Restructuring costs – Tobacco & NGP	(249)	(195)
Restructuring costs – Distribution	(8)	(10)
Operating profit	3,146	2,731
Net finance income/(costs)	81	(610)
Share of profit of investments accounted for using the equity method	11	45
Profit before tax	3,238	2,166

See note 8 for details of the Excise tax. See note 12 for details on amortisation and impairment, note 11 for details of acquisition and disposal costs, and note 5 for details of restructuring costs.

OTHER INFORMATION

£ million	2021		2020	
	Additions to property, plant and equipment	Depreciation and software amortisation	Additions to property, plant and equipment	Depreciation and software amortisation
Tobacco & NGP				
Europe	87	99	77	101
Americas	26	28	30	31
Africa, Asia & Australasia	20	27	46	34
Total Tobacco & NGP	133	154	153	166
Distribution	32	40	21	36
Total Group	165	194	174	202

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

ADDITIONAL GEOGRAPHIC ANALYSIS

External revenue and non-current assets are presented for the UK and for individually significant countries. The geographical analysis is based on country of origin. The Group's products are sold in over 120 countries.

£ million	2021		2020	
	External revenue	Non-current assets	External revenue	Non-current assets
UK	4,558	102	4,498	104
Germany	4,566	3,246	4,637	3,465
France	3,537	2,336	3,772	2,564
USA	3,405	5,486	3,575	6,143
Other	16,725	7,307	16,080	7,900
Total Group	32,791	18,477	32,562	20,176

Non-current assets comprise intangible assets, property, plant and equipment and investments accounted for using the equity method.

4. PROFIT BEFORE TAX

Profit before tax is stated after charging/(crediting):

£ million	2021	2020
Raw materials and consumables used	947	947
Changes in inventories of finished goods – Tobacco & NCP	2,700	2,781
Changes in inventories of finished goods – Distribution	7,009	6,798
Depreciation and impairment of fixed assets	170	205
Amortisation and impairment of intangible assets	575	628
Acquisition and disposal costs	17	26
Expenses relating to short-term leases	4	4
Expenses relating to low value asset leases	2	2
Depreciation of Right of use assets	66	72
Net foreign exchange (gains)/losses	(442)	258
Write down of inventories	117	126
Loss/(profit) on disposal of non-current assets	2	(2)
(Write back)/impairment of trade receivables	(10)	44

ANALYSIS OF FEES PAYABLES TO ERNST AND YOUNG LLP AND ITS ASSOCIATES

£ million	2021	2020
Parent Company and consolidated financial statements	2.0	1.9
The Company's subsidiaries	5.1	4.7
Audit related assurance services	0.4	0.4
Total audit related fees	7.5	7.0
Other assurance services	0.4	0.2
Total non-audit fees	0.4	0.2
Total auditor's remuneration	7.9	7.2

Ernst & Young LLP was appointed the Group's auditor for the year ended 30 September 2020.

PwC (the Group's previous auditor) provided services to Logista relating to preparation of their consolidation financial statements amounting to £nil (2020: £0.2m).

5. RESTRUCTURING COSTS

£ million	2021	2020
Employment related	145	103
Asset impairments	92	58
Other charges	20	44
Total	257	205

Restructuring costs analysed by workstream:

£ million	2021	2020
2021 Strategic review programme	226	–
Cost optimisation programmes	23	187
Other	8	18
Total	257	205

The charge for the year of £257 million (2020: £205 million) predominantly relates to our 2021 Strategic review programme and Cost optimisation programmes.

Restructuring costs are included within administrative and other expenses in the consolidated income statement. All restructuring costs are treated as adjusting items.

These projects differ from everyday initiatives that are undertaken to improve the efficiency and effectiveness of the ongoing operations business. These costs are required in order to address structural issues involved in operating within the Tobacco sector that require action to both modernise and right-size the organisation, ultimately delivering an operating model suitable for the future of the business.

2021 STRATEGIC REVIEW PROGRAMME

In January 2021, the Group announced the results of a Strategic Review Programme including an associated and specific time-bound restructuring programme. The Group expects the majority of the associated restructuring costs to have been incurred by September 2022. Total restructuring costs in respect of the programme are expected to be in the range of £375 million – £425 million.

Restructuring costs of £226 million (2020: £nil) related to the 2021 Strategic Review Programme have been incurred in the year, representing £153 million costs in respect of the change programme itself and £73 million of impairments associated with NGP assets.

2021 Strategic Review Programme cash spend for the year was £48 million (2020: £nil).

COST OPTIMISATION PROGRAMMES

The cost optimisation programmes (Phase I announced in 2013 and Phase II announced in November 2016) was part of the Group strategy to optimise costs and drive operational efficiencies. The programmes were time bound projects which, given their scale, were delivered over a number of years. Phase I was concluded at the end of 2018 and Phase II was concluded at the end of 2021. Whilst both programmes are concluded there remain some ongoing cash costs.

Phase II of the programme focused on reducing product costs and overheads. Phase II cash spend for the year was £41 million (2020: £107 million), bringing the cumulative cash cost of the programme to £548 million as at September 2021. Phase II is currently delivering savings of c. £320 million per annum as at September 2021.

Phase I cash spend for the year was £12 million (2020: £16 million), bringing the cumulative cash cost of the programme to £571 million as at September 2021. Phase I has delivered savings of c. £305 million per annum from September 2018.

Restructuring costs of £23 million (2020: £187 million) related to the Cost optimisation programmes includes £19 million of impairments associated with tangible assets.

OTHER RESTRUCTURING ACTIVITIES

In the year £8 million (2020: £10 million) of restructuring costs related to Logista.

There are £nil (2020: £8 million) Other restructuring costs that do not relate to Logista.

In the year other restructuring cash spend was £11 million.

6. ALTERNATIVE PERFORMANCE MEASURES

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	Notes	2021	2020
Operating profit		3,146	2,731
Acquisition and disposal costs	11	17	26
Amortisation and impairment of acquired intangibles	12/15	450	523
Excise tax provision		(1)	(20)
Fair value adjustment of loan receivable	21	(15)	62
Profit on disposal of subsidiaries		(281)	-
Restructuring costs	5	257	205
Adjusted operating profit		3,573	3,527
Organic adjusted operating profit		3,570	3,496
Premium cigar divestment adjusted operating profit		3	31
Adjusted operating profit		3,573	3,527

Amortisation and impairment of acquired intangibles, acquisition and disposal costs and restructuring costs are discussed in further detail in the above referenced notes.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

RECONCILIATION FROM REPORTED NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	2021	2020
Reported net finance (income)/costs	(81)	610
Fair value gains on derivative financial instruments	508	661
Fair value losses on derivative financial instruments	(457)	(581)
Exchange (gains)/losses on financing activities	445	(256)
Net fair value and exchange losses on financial instruments	496	(176)
Interest income on net defined benefit assets	89	99
Interest cost on net defined benefit liabilities	(87)	(104)
Post-employment benefits net financing cost	2	(5)
Adjusted net finance costs	417	429
Comprising		
Interest income on bank deposits	(18)	(10)
Interest cost on lease liabilities	7	7
Interest cost on bank and other loans	428	432
Adjusted net finance costs	417	429

CASH CONVERSION CALCULATION

£ million unless otherwise indicated	2021	2020
Net cash flow from operating activities	2,167	4,030
Tax	820	568
Net capital expenditure	(150)	(274)
Restructuring spend	112	145
Cash flow post capital expenditure pre interest and tax	2,949	4,469
Adjusted operating profit	3,573	3,527
Cash Conversion %	83%	127%

7. DIRECTORS AND EMPLOYEES

EMPLOYMENT COSTS

£ million	2021	2020
Wages and salaries	775	812
Social security costs	177	184
Other pension costs (note 24)	75	68
Share-based payments (note 27)	25	20
	1,052	1,084

OPERATING EXECUTIVE (EXCLUDING EXECUTIVE DIRECTORS)

£ million	2021	2020
Base salary	3.0	2.0
Benefits	0.7	-
Pension salary supplement	0.3	-
Bonus	2.9	1.6
Termination payments	-	-
LTI ¹ annual vesting ¹	0.8	-
SMS annual vesting ¹	-	0.1
	7.7	3.7

1. Share plans vesting represent the value of SMS and LTI awards where the performance periods ends in the year. The SMS has no performance conditions and is valued at the time of vesting being 15 February at a share price of £15.0657.

Note aggregate remuneration paid to or receivable by Executive directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges was £16,439,675 (2020: £9,239,049).

KEY MANAGEMENT COMPENSATION ¹

£ million	2021	2020
Short term employee benefits	12.7	9.2
Post-employment benefits	0.5	2.0
Other long-term benefits	-	-
Termination payments	-	-
Share based payments (in accordance with IAS 24)	0.9	0.2
	14.1	11.4

1. Key management includes Directors, members of the Executive Committee and the Company Secretary

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. The Directors' Remuneration Report, on pages 129-139 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

NUMBER OF PEOPLE EMPLOYED BY THE GROUP DURING THE YEAR

	2021		2020	
	At 30 September	Average	At 30 September	Average
Tobacco & NGP	24,100	24,000	26,300	25,900
Distribution	6,200	6,200	6,200	6,200
	30,300	30,200	32,500	32,100

NUMBER OF PEOPLE EMPLOYED BY THE GROUP BY LOCATION DURING THE YEAR

	2021		2020	
	At 30 September	Average	At 30 September	Average
UK and European Union	14,600	14,700	14,900	15,100
Americas	8,300	8,000	8,900	8,400
Rest of the World	7,400	7,500	8,700	8,600
	30,300	30,200	32,500	32,100

The average number of employees includes 2,500 La Romana employees that are expected to leave the Group in 2022 as part of the final part of the Premium Cigar Division disposal. Excluding these employees, the average number of employees was 27,700 on a pro-forma basis.

8. TAX

The major components of income tax expense for the years ended 30 September 2021 and 2020 are:

£ million	2021	2020
UK Current tax		
Current year charged to the consolidated income statement	21	97
Current year charged to consolidated other comprehensive income	105	10
Total current year UK current tax	126	107
Adjustments in respect of prior years charged to the consolidated income statement	(38)	26
Total UK current tax	88	133
Overseas current tax		
Current year charged to the consolidated income statement	458	458
Current year charged to consolidated other comprehensive income	(2)	-
Total current year overseas current tax	456	458
Adjustments in respect of prior years charged to the consolidated income statement	46	12
Total overseas current tax	502	470
Total current tax charged to the consolidated statement of other comprehensive income	590	603
£ million	2021	2020
UK Current tax		
Current year	21	97
Adjustments in respect of prior years	(38)	26
Overseas current tax		
Current year	458	458
Adjustments in respect of prior years	46	12
Total current tax	487	593
Deferred tax		
Relating to origination and reversal of temporary differences	(156)	15
Total tax charged to the consolidated income statement	331	608
£ million	2021	2020
Tax related to items recognised in consolidated other comprehensive income during the year:		
Current tax on hedge of net investment	105	10
Current tax on actuarial gains and losses	(2)	-
Total current tax	103	10
Deferred tax on hedge of net investment	12	80
Deferred tax on actuarial gains and losses	21	53
Total deferred tax	33	133
Total tax charged to consolidated other comprehensive income	136	143

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

RECONCILIATION FROM REPORTED TAX TO ADJUSTED TAX

The table below shows the tax impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 10.

£ million	2021	2020
Reported tax	331	608
Deferred tax on amortisation of acquired intangibles	31	57
Current tax on excise tax provision	–	(4)
Tax on net foreign exchange and fair value gains and losses on financial instruments	78	(63)
Tax on post-employment benefits net financing cost	1	1
Tax on restructuring costs	72	31
Tax on disposal of premium cigar division	11	(19)
Recognition of tax credits	239	67
Uncertain tax positions	–	(77)
Tax on unrecognised losses	(47)	41
Adjusted tax charge	716	642

The use of adjusted performance measures is explained in note 1, Accounting Policies (Use of Adjusted Performance Measures).

FACTORS AFFECTING THE TAX CHARGE FOR THE YEAR

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate of 19.0 per cent (2020: 19.0 per cent) as follows:

£ million	2021	2020
Profit before tax	3,238	2,166
Tax at the UK corporation tax rate of 19.0% (2020: 19.0%)	615	411
Tax effects of:		
Differences in effective tax rates on overseas earnings	107	100
Movement in provision for uncertain tax positions	49	61
Remeasurement of deferred tax balances arising from changes in tax rates	15	9
Recognition of deferred tax assets for tax credits	(239)	–
Remeasurement of previously recognised deferred tax assets	(5)	(81)
Increase in unrecognised deferred tax assets	12	30
Deferred tax on unremitted earnings	(4)	(19)
Share of profit of investments accounted for using the equity method	(2)	(8)
Non-deductible expenses/(non-taxable income)	35	(4)
(Non-taxable gains)/non-deductible losses on net foreign exchange on financial instruments	(169)	80
Non-taxable gain on Premium Cigar Division disposal	(81)	–
Adjustments in respect of prior years	(2)	29
Total tax charged to the consolidated income statement	331	608

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 19.0 per cent. The effective tax rate benefits from internal financing arrangements between group subsidiaries in different countries which are subject to differing tax rates and legislation and the application of double taxation treaties.

Recognition of deferred tax assets for credits includes £239 million (2020: £nil) in the Group's Spanish business arising from an internal reorganisation during the year.

Remeasurement of previously recognised deferred tax assets includes £8 million recognition (2020: £18 million) in relation to deferred tax assets for tax losses in the Group's Dutch business, £nil recognition (2020: £15 million) in relation to deferred tax assets for tax credits and losses in the Group's Spanish business and £nil recognition (2020: £45 million) in relation to deferred tax assets for tax losses in the Group's US business. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation and the interpretation thereof and changes in the group structure.

The remeasurement of deferred tax balances arising from changes in tax rates for the year is £15 million (2020: £9 million).

During the year the Group has decreased the provision for deferred tax on unremitted earnings by £4 million (2020: £19 million decrease). The tax will arise on the distribution of profits through the group and on planned group simplification.

MOVEMENT ON THE CURRENT TAX ACCOUNT

£ million	2021	2020
At 1 October	(144)	(118)
Charged to the consolidated income statement	(487)	(593)
(Charged)/credited to other comprehensive income	(103)	10
Credited to equity	–	1
Cash paid	820	568
Exchange movements	3	(13)
Other movements	(7)	1
At 30 September	82	(144)

The cash tax paid in the year is £333 million higher than the current tax charge (2020: £25 million lower). This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

ANALYSIS OF CURRENT TAX ACCOUNT

£ million	2021	2020
State aid tax recoverable	101	–
Current tax assets	234	206
Current tax liabilities	(253)	(350)
	82	(144)

UNCERTAIN TAX POSITIONS

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2021 the total value of these provisions, including foreign exchange movements, was £306 million (2020: £273 million). The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice. Until matters are finally concluded it is possible that amounts ultimately paid will be different from the amounts provided.

Management have assessed the Group's provision for uncertain tax positions and have concluded that apart from the matters referred to below the provisions in place are not material individually or in aggregate, and that a reasonably possible change in the next financial year would not have a material impact to the results of the Group.

FRENCH TAX LITIGATION

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £234 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intragroup transfer of shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. In October 2018 the Commission Nationale, an independent adjudication body, whose decision is advisory only, issued a report supportive of the Group's arguments for no adjustment. In December 2018 the French tax authorities issued their final assessments seeking the full amount of additional tax assessed of £234 million (2020: £248 million). In January 2019 the Group appealed against the assessment. In August 2020, the French tax authorities rejected the Group's appeal and the matter will now proceed to litigation. As of September 2021, all submissions have been made to the court and we await a hearing date. The Group believes it is appropriate to maintain a £41 million (2020: £44 million) provision for uncertain tax positions in respect of this matter.

STATE AID UK CFC

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company regime was published. It concludes that the legislation up until December 2018 does partially represent State Aid. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision. The Group, along with a number of UK corporates, has made a similar application to the European Court. The UK Government is obliged to collect any State Aid granted pending the outcome of the European Court process.

Based on advice, the Group's position remains that no State Aid has been received, but following HMRC guidance an assessment of potential State Aid was submitted to HMRC in July 2020. In February 2021 a charging notice for £101 million, in line with the Group's assessment, was issued to the Group by HMRC and has since been paid. Advice to date is that our appeal and that of the UK government against the Commission's decision should ultimately be successful so a current tax receivable of £101 million has been recognised as a non-current asset.

Based upon current advice the Group does not consider any provision is required in relation to any other EU State Aid investigation.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

TRANSFER PRICING

The Group has tax audits in progress, relating to transfer pricing matters in a number of jurisdictions, principally UK, France and Germany. The Group estimates the potential gross level of exposure relating to transfer pricing issues is approximately £900 million (2020: £800 million). The Group holds a provision of £260 million (2020: £207 million) in respect of these items.

In August 2020 the Group notified HMRC of a potential Diverted Profits Tax (DPT) issue relating to brand rewards. In September 2020, HMRC issued a preliminary notice under the DPT regime in respect of the year ended 30 September 2016 indicating a potential liability of c. £6 million. Collaborative discussions on the issue continue and it is the Group's belief the issue is a transfer pricing one, and will be resolved as such. In November 2020, HMRC issued a final DPT notice, which has now been paid. In September 2021, further preliminary DPT notices were received in respect of the year ended 30 September 2017 indicating a potential liability of c. £4 million. Based on advice, the Group continues to believe this is a transfer pricing matter, but if a settlement is not reached before December 2021 the c. £4 million DPT notice will be payable. On conclusion of the transfer pricing discussions, an appropriate refund is anticipated for all DPT payments.

The Group believe the transfer pricing provision held above appropriately provides for this and other transfer pricing issues.

9. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	2021	2020	2019
Paid interim of 42.12 pence per share (2020: 41.70 pence, 2019: 62.56 pence)			
– Paid June 2019	–	–	298
– Paid September 2019	–	–	298
– Paid December 2019	–	–	679
– Paid June 2020	–	197	–
– Paid September 2020	–	197	–
– Paid December 2020	–	453	–
– Paid June 2021	199	–	–
– Paid September 2021	199	–	–
Interim dividend paid	398	847	1,275
Proposed interim of 48.48 pence per share (2020: 48.00 pence, 2019: 72.00 pence)			
– To be paid December 2021	458	–	–
Interim dividend proposed	458	–	–
Proposed final of 48.48 pence per share (2020: 48.01 pence, 2019: 72.01 pence)			
– Paid March 2020	–	–	680
– Paid March 2021	–	454	–
– To be paid March 2022	458	–	–
Final dividend	458	454	680
Total ordinary share dividends of 139.08 pence per share (2020: 137.71 pence, 2019: 206.57 pence)	1,314	1,301	1,955

The third interim dividend for the year ended 30 September 2021 of 48.48 pence per share amounts to a proposed dividend of £458 million, which will be paid in December 2021.

The proposed final dividend for the year ended 30 September 2021 of 48.48 pence per share amounts to a proposed dividend payment of £458 million in March 2022 based on the number of shares ranking for dividend at 30 September 2021, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2021 will be £1,314 million (2020: £1,301 million). The dividend paid during 2021 is £1,305 million (2020: £1,753 million).

10. EARNINGS PER ORDINARY SHARE

Basic earnings per share is based on the profit for the period attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the period excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

£ million	2021	2020
Earnings, basic and diluted – attributable to owners of the Parent Company	2,834	1,495
Millions of shares	2021	2020
Weighted average number of shares:		
Shares for basic earnings per share	945.0	944.4
Potentially dilutive share options	2.5	1.4
Shares for diluted earnings per share	947.5	945.8
Pence	2021	2020
Basic earnings per share	299.9	158.3
Diluted earnings per share	299.1	158.1

RECONCILIATION FROM REPORTED TO ADJUSTED EARNINGS AND EARNINGS PER SHARE

	2021		2020	
	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
£ million unless otherwise indicated				
Reported basic	299.9	2,834	158.3	1,495
Acquisition and disposal costs	1.8	17	2.8	26
Amortisation and impairment of acquired intangibles	44.3	419	49.2	466
Profit on disposal of subsidiaries	(29.7)	(281)	-	-
Excise tax provision	(0.1)	(1)	(1.7)	(16)
Fair value adjustment of loan receivable	(1.6)	(15)	6.6	62
Net fair value and exchange movements on financial instruments	(60.7)	(574)	25.3	239
Post-employment benefits net financing cost	(0.3)	(3)	0.4	4
Restructuring costs	19.6	185	18.4	174
Tax on disposal of premium cigar division	(1.2)	(11)	2.0	19
Recognition of tax credits	(25.3)	(239)	(7.1)	(67)
Uncertain tax positions	-	-	8.2	77
Tax on unrecognised losses	5.0	47	(4.3)	(41)
Adjustments above attributable to non-controlling interests	(4.6)	(43)	(3.7)	(35)
Adjusted	247.1	2,335	254.4	2,403
Adjusted diluted	246.4	2,335	254.1	2,403
Organic adjusted	246.5	2,330	247.2	2,335
Premium Cigar divestment adjusted	0.6	5	7.2	68
Adjusted	247.1	2,335	254.4	2,403
Organic adjusted diluted	246.8	2,330	246.9	2,335
Premium Cigar divestment adjusted diluted	0.6	5	7.2	68
Adjusted diluted	246.4	2,335	254.1	2,403

11. DISPOSAL OF SUBSIDIARIES

On 27 April 2020 the Group announced that it had agreed the sale of the Premium Cigar Division ("the Division"). The total cash receipts expected for the transaction are £1,198 million (including the La Romana disposal – see below). The share sale element of the sale of the Division completed on 29 October 2020 and to date £1,041 million (£845 million) of consideration has been received. A further £88 million of deferred consideration relating to the share sale was received on 26 October 2021.

The profit arising on disposal of the Division was £281 million and includes £337 million of foreign exchange gains that had previously been recognised in the foreign exchange reserve and that were recycled to the income statement on completion of the transaction.

The sale of the La Romana factory in the Dominican Republic is due to complete during the Group's 2022 financial year when it is expected that €69 million of sales consideration will be received subject to a true up in respect of inventory values. The carrying value of the net assets of the La Romana factory total \$64 million. This sale of the La Romana factory does not meet the recognition criteria for an asset held for sale as there is ongoing work to separate the factory for disposal.

On 18 June 2021 a letter of intent to sell Supergroup S.A.S. was agreed. At 30 September 2021, the Group has assessed the IFRS 5 criteria for presentation of the business as held for disposal. Given the progress made on the sale the Group considers the IFRS 5 criteria to have been met and therefore it is highly probable that a disposal will be completed. The Group has therefore presented the net assets of Supergroup S.A.S. as current assets and liabilities held for sale. A fair value adjustment of £3 million and a reclassification of an associated provision of £9 million has resulted in the non-current assets being written down to nil.

In addition to the above, certain assets within the Distribution business have also been reclassified to assets held for sale due to the existence of purchase offers from third parties. The value of these assets on 30 September 2021 was £8 million.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

The assets and liabilities classified as held for disposal are as follows:

£ million	2021	2020
Non-current assets		
Intangible assets	-	101
Property, plant and equipment	8	17
Investments accounted for using the equity method	-	584
Trade and other receivables	-	35
Right of use leased assets	-	7
Deferred tax assets	-	10
	8	754
Current assets		
Inventories	9	166
Trade and other receivables	18	67
Cash and cash equivalents	-	75
	27	308
Total assets	35	1,062
Current liabilities		
Trade and other payables	(13)	(35)
Tax liabilities	(4)	-
Provisions	(18)	(3)
	(35)	(38)
Total liabilities	(35)	(38)
Net assets	-	1,024

12. INTANGIBLE ASSETS

	2021				
£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
Cost					
At 1 October 2020	14,435	12,994	1,463	465	29,357
Additions	-	9	-	28	37
Disposals	(260)	5	(2)	(22)	(279)
Exchange movements	(758)	(649)	(74)	(20)	(1,501)
At 30 September 2021	13,417	12,359	1,387	451	27,614
Amortisation and impairment					
At 1 October 2020	1,896	7,663	1,341	298	11,197
Amortisation charge for the year	-	333	85	37	455
Impairment	-	118	-	2	120
Disposals	(260)	-	(1)	(15)	(276)
Exchange movements	(93)	(379)	(70)	(14)	(556)
Accumulated amortisation	-	7,196	1,355	304	8,855
Accumulated impairment	1,542	539	-	4	2,085
At 30 September 2021	1,542	7,735	1,355	308	10,940
Net book value					
At 30 September 2021	11,875	4,624	32	143	16,574

	2020				
£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
Cost					
At 1 October 2019	14,232	13,021	1,423	421	29,097
Additions	-	74	-	38	112
Disposals	-	(1)	-	(7)	(8)
Reclassifications	(1)	-	-	7	6
Transferred to held for disposal (note 11)	-	7	2	-	9
Exchange movements	204	(107)	38	6	141
At 30 September 2020	14,435	12,994	1,463	465	29,357
Amortisation and impairment					
At 1 October 2019	1,847	7,169	1,220	265	10,501
Amortisation charge for the year	-	466	85	33	584
Impairment	12	29	-	2	43
Disposals	-	-	-	(6)	(6)
Reclassifications	(1)	-	-	-	(1)
Exchange movements	37	(1)	36	4	76
Accumulated amortisation	-	7,242	1,341	296	8,879
Accumulated impairment	1,895	421	-	2	2,318
At 30 September 2020	1,895	7,663	1,341	298	11,197
Net book value					
At 30 September 2020	12,540	5,331	122	167	18,160

Amortisation and impairment of acquired intangibles excluded from adjusted operating profit amounted to £450 million (2020: £523 million), this comprises amortisation on intellectual property of £320 million (2020: £466 million), impairment on intellectual property of £45 million (2020: £14 million) and amortisation on supply agreements of £85 million (2020: £85 million).

A further £73 million (2020: £nil) impairment of intellectual property and product development assets has also been recognised in restructuring costs and therefore excluded from adjusted operating profits.

Intellectual property mainly comprises brands acquired in the USA in 2015 and through the purchases of Altadis in 2008 and Commonwealth Brands in 2007.

Supply agreements include Distribution customer relationships. All were acquired as part of the Altadis purchase.

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

Amortisation and impairment in respect of intangible assets other than software and internally generated intellectual property are treated as reconciling items between reported operating profit and adjusted operating profit, except to the extent these have been treated as restructuring costs.

ACQUISITIONS

NERUDIA

On 23 October 2017, the Group acquired 100 per cent of the share capital of Nerudia Limited. As previously disclosed, a portion of the consideration remained contingent and was tied to certain contractual pre-conditions. The matter is expected to conclude in the near future.

GOODWILL AND INTANGIBLE ASSET IMPAIRMENT REVIEW

Goodwill is allocated to groups of cash-generating units (CGUs) that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco & NGP business CGUs are based on the markets where the business operates and are grouped in line with the divisional structure in operation during the year. The groupings represent the lowest level at which goodwill is monitored for internal management purposes. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

£ million	2021		2020	
	Goodwill	Intangible assets with indefinite lives	Goodwill	Intangible assets with indefinite lives
Europe	4,402	334	4,645	353
Americas	4,042	-	4,265	-
Africa, Asia & Australasia	1,740	132	1,836	140
Tobacco & NGP	10,184	466	10,746	493
Distribution	1,691	-	1,794	-
	11,875	466	12,540	493

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGU groupings), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGU groupings) and ITG Brands in 2015 (USA). Intangible assets with indefinite lives relate to the tobacco trademark, Davidoff, which was purchased as part of the acquisition of Reemtsma in 2002.

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a Cash Generating Unit Grouping (CGUG) is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans of our Tobacco business which are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer uptrading and downtrading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

GROWTH RATES AND DISCOUNT RATES USED

The compound annual growth rates implicit in these value-in-use calculations are shown below.

%	2021			2020		
	Pre-tax discount rate	Initial growth rate	Long-term growth rate	Pre-tax discount rate	Initial growth rate	Long-term growth rate
Europe	9.9	2.7	0.1	9.6	2.6	1.0
Americas	9.8	5.7	1.6	8.8	1.3	1.9
Africa, Asia & Australasia	12.1	1.7	0.3	12.9	0.4	2.1
Distribution	11.2	1.5	1.4	13.0	0.8	1.6

Cash flows from the business plan period are used for year one, two and three, then extrapolated out to year five using the implicit growth rate, shown in the table above as the initial growth rate. In certain markets, the extrapolated growth rate can exceed the long term growth rate based on the business plan being a better reflection of the anticipated initial growth. Estimated long term weighted average compound growth rates are used beyond year five.

Long term growth rates are determined as the lower of:

- the nominal GDP growth rates for the country of operation; and
- the extrapolation of the initial growth rates as estimated by management for years one to five

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the Tobacco industry. Year on year variations in initial growth rates may result in consequential changes to estimated long term rates.

Discount rates used are based on the Group's weighted average cost of capital adjusted for the different risk profiles of the CGUs. Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Europe's initial growth rate is broadly consistent with the prior year, and the long term growth rate has reduced reflecting the alignment of outer year rates to reductions in initial growth rates for certain markets.

Americas shows an increased initial growth rate driven by the mass market cigar growth (improved sales and benefits from manufacturing and investment in leaf supply), reduced one-off costs for NGP & litigation settlements. The reduction in the long term growth rates is based on changes in the macroeconomic outlook.

Africa, Asia & Australasia (AAA) increases in the initial growth rates are driven by improved medium term forecasts, which are heavily influenced by changes in the Australian market. The long term growth rate reduction reflects changes in certain assumptions associated with the extrapolation of the initial growth rate for a number of individual markets.

The Distribution discount rate reflects reductions in the country risk premium driven by macroeconomic factors. The initial growth rates reflects improved medium term forecasts.

Our impairment testing confirms there are sufficient cash flows to support the current carrying values of the goodwill held at 30 September 2021. Any reasonable movement in the assumptions used in the impairment tests would not result in an impairment. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions materially change it is likely that materially different amounts could be reported in the Group's financial statements. There are uncertainties associated with estimating the valuation of the recoverable amount.

At the present time the recoverable amount is significantly in excess of the carrying value of goodwill and other intangible assets. However, given the uncertainties mentioned above this could change in the future.

Consideration of the impact of climate change

In terms of the possible impacts of climate change, the two key metrics that could be sensitive to this are the initial and the long-term growth rate. If climate change has a negative impact on product sales revenues and/or the operating costs of the Group there could be a potential impact on the discounted cash flow growth rates used within the valuation model. Lower future growth rates would reduce the level of the discounted cash flow valuation and hence the amount of headroom available to the Group above an impairment trigger. At present, the material short to medium term risks presented by possible climate change impacts will be factored into the initial growth rates where they are known and can be quantified. For example, government regulatory changes which impact operating costs will be recognised where they are known.

However, the current level of headroom for goodwill is substantial for the Group. Using the current growth rate assumptions, on a CGUG basis, the total value of assets will be recovered via the discounted cash flows within a maximum of 9 years. Therefore, at present, changes in the long-term growth rates beyond this period due to the impact of climate change would not be expected to trigger an impairment.

OTHER INTANGIBLE ASSETS

Other intangible assets are considered for impairment risk. The carrying values of brand intangibles are reviewed against expected future cash flows of associated products. Impairment will only be recognised where there is evidence that the carrying value of the brand cannot be recovered through those cash flows. No impairments have been recognised for brand intangibles.

Intellectual property and product development intangible assets have also been reviewed to identify potential impairment triggers. The impact of the 2021 strategic review programme, which was announced in the current financial year, has been identified as an impairment trigger. The change in commercial plans has resulted in the exit of NGP product offerings in certain markets and the implementation of a different approach to future product development, which focuses on achieving the best potential for sustainable growth and is being led by consumer needs. The change in strategy has meant that certain previously acquired intangible assets and internally generated development assets are now no longer required to support the business. As a result of this, these assets have been determined to have a nil residual value. This has resulted in an impairment of £118 million relating to NGP intangible assets (intellectual property and product development) in the year (2020: £29 million). Of this impairment charge £73 million related to internally generated intangible assets and has been taken as a restructuring cost and the remaining £45 million has been recognised as an impairment charge within amortisation and impairment of acquired intangible assets, both of which are excluded from adjusted operating profit. The impairment of £118 million is split between Europe (£96 million) and Americas (£22 million) operating segments.

A further £2 million (2020: £2 million) impairment charge was incurred in the year relating to software.

13. PROPERTY, PLANT AND EQUIPMENT

	2021			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2020	905	2,216	438	3,559
Additions	13	99	53	165
Disposals	(78)	(114)	(43)	(235)
Reclassifications	4	1	(4)	1
Transfer to current assets held for disposal	(8)	-	(12)	(20)
Exchange movements	(39)	(116)	(21)	(176)
At 30 September 2021	797	2,086	411	3,294
Depreciation and impairment				
At 1 October 2020	188	1,190	282	1,660
Depreciation charge for the year	20	104	33	157
Impairment	2	11	-	13
Disposals	(40)	(93)	(30)	(163)
Reclassifications	4	(5)	(2)	(4)
Exchange movements	(12)	(60)	(12)	(84)
At 30 September 2021	162	1,146	271	1,579
Net book value				
At 30 September 2021	635	940	140	1,715

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

	2020			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2019	909	2,193	440	3,542
Additions	11	122	41	174
Disposals	(16)	(65)	(30)	(111)
Reclassifications	3	1	(13)	(9)
Exchange movements	(2)	(35)	-	(37)
At 30 September 2020	905	2,216	438	3,559
Depreciation and impairment				
At 1 October 2019	181	1,104	278	1,563
Depreciation charge for the year	18	117	34	169
(Impairment write back)/impairment	(2)	38	-	36
Disposals	(6)	(49)	(28)	(83)
Reclassifications	(1)	(2)	(2)	(5)
Exchange movements	(2)	(18)	-	(20)
At 30 September 2020	188	1,190	282	1,660
Net book value				
At 30 September 2020	717	1,026	156	1,899

14. RIGHT OF USE ASSETS AND LEASE LIABILITY

The movements in Right of Use Assets in the year were as follows:

	2021			
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Net book value				
At 1 October 2020	254	8	31	293
Additions	29	2	22	53
Terminations & modifications	(21)	(2)	(3)	(26)
Depreciation	(49)	(2)	(15)	(66)
Exchange movements	(11)	-	(1)	(12)
At 30 September 2021	202	6	34	242

The movements in lease liabilities in the year were as follows:

£ million	Lease Liabilities
At 1 October 2020	299
Cash flow	(69)
Accretion of interest	7
New leases, terminations & modifications	26
Exchange movements	(12)
At 30 September 2021	251

The maturity profile of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2021 is as follows:

	2021		
£ million	Lease liabilities	Effect of discounting	Contractual cash flows
Amounts maturing:			
Within one year	57	7	64
Between one and five years	124	17	141
In five years or more	70	8	78
	251	32	283

Future minimum lease payments liabilities are analysed as below:

				2021
	Property	Plant and equipment	Fixtures and motor vehicles	Total
Due in less than one year	47	2	15	64
Due between one and five years	116	3	22	141
Due in more than five years	78	–	–	78
Total future minimum lease payments payable	241	5	37	283
Effect of discounting				(32)
Lease liability				251

The following are the amounts recognised in the Consolidated Income statement:

	2021	2020
Expenses relating to short-term leases	4	4
Expenses relating to low value asset leases	2	2
Depreciation expense of Right of Use Assets	66	72
Interest on lease liabilities	7	7

The movements in Right of Use Assets in the year ending 30 September 2020 were as follows:

				2020
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Net book value				
At 1 October 2019	279	7	41	327
Additions	24	4	11	39
Terminations & modifications	(2)	–	(4)	(6)
Depreciation	(52)	(3)	(17)	(72)
Exchange movements	5	–	–	5
At 30 September 2020	254	8	31	293

The movements in lease liabilities in the year ending 30 September 2020 were as follows:

£ million	Lease Liabilities
At 1 October 2019	326
Cash flow	(72)
Accretion of interest	7
New leases, terminations & modifications	32
Exchange movements	6
At 30 September 2020	299

The maturity profile of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2020 is as follows:

				2020
£ million	Lease liabilities	Effect of discounting	Contractual cash flows	
Amounts maturing:				
Within one year	64	6	70	
Between one and five years	160	15	175	
In five years or more	75	12	87	
	299	33	332	

Future minimum lease payments liabilities as at 30 September 2020 are analysed as below:

				2020
	Property	Plant and equipment	Fixtures and motor vehicles	Total
Due in less than one year	53	3	14	70
Due between one and five years	151	5	19	175
Due in more than five years	87	–	–	87
Total future minimum lease payments payable	291	8	33	332
Effect of discounting				(33)
Lease liability				299

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint ventures during the year were Corporación Habanos SA, Cuba, Altabana SL, Spain and Global Horizon Ventures Limited. Corporación Habanos SA, Cuba and Altabana SL, Spain were disposed of on 29 October 2020 as part of the Premium Cigar Division. Summarised financial information for the Group's joint ventures, which are accounted for under the equity method, is shown below:

	2021			
£ million	Corporación Habanos	Altabana	Global Horizon Ventures	Others
Revenue	15	30	18	27
Profit after tax	5	5	13	5
Non-current assets	–	–	24	3
Current assets	–	–	47	49
Total assets	–	–	71	52
Current liabilities	–	–	(3)	(43)
Non-current liabilities	–	–	–	(9)
Total liabilities	–	–	(3)	(52)
Net assets	–	–	68	–

	2020			
£ million	Corporación Habanos	Altabana	Global Horizon Ventures	Others
Revenue	188	322	10	61
Profit after tax	43	52	1	10
Non-current assets	458	27	–	11
Current assets	99	233	41	82
Total assets	557	260	41	93
Current liabilities	(147)	(40)	(2)	(16)
Non-current liabilities	(28)	(5)	–	(45)
Total liabilities	(175)	(45)	(2)	(61)
Net assets	382	215	39	32

TRANSACTIONS AND BALANCES WITH JOINT VENTURES

£ million	2021	2020
Sales to	6	163
Purchases from	19	111
Accounts receivable from	–	–
Accounts payable to	(3)	(24)

MOVEMENT ON INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

£ million	2021	2020
At 1 October	117	81
Share of profit for the year from joint ventures and associates	11	45
Increase in investment in associates	3	5
Impairment of investment in joint ventures	–	(1)
Dividends	(9)	(27)
Classification (to)/from held for disposal and disposals of business	(32)	50
Foreign exchange losses	(2)	(36)
At 30 September	88	117

16. INVENTORIES

£ million	2021	2020
Raw materials	839	1,001
Work in progress	58	74
Finished inventories	2,765	2,781
Other inventories	172	209
	3,834	4,065

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £2,765 million (2020: £2,781 million) there is excise duty of £1,282 million (2020: £1,312 million).

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset, although part of such inventory, because of the duration of the processing cycle ordinarily would not be consumed within one year. We estimate that around £115 million (2020: £179 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

17. TRADE AND OTHER RECEIVABLES

£ million	2021		2020	
	Current	Non-current	Current	Non-current
Trade receivables	2,431	3	2,410	4
Less: loss allowance	(58)	(3)	(112)	(4)
Net trade receivables	2,363	–	2,298	–
Other receivables	227	58	178	48
Prepayments	159	4	162	9
	2,749	62	2,638	57

Trade receivables may be analysed as follows:

£ million	2021		2020	
	Current	Non-current	Current	Non-current
Within credit terms	2,271	–	2,138	–
Past due by less than 3 months	85	–	77	–
Past due by more than 3 months	7	–	83	–
Amounts that are impaired	68	3	112	4
	2,431	3	2,410	4

The movements in the total loss allowance for receivables can be analysed as follows:

£ million	2021	2020
At 1 October	116	77
Net (decrease) / increase in provision	(45)	39
At 30 September	71	116

Trade receivables are reviewed by their risk profiles and loss patterns to assess credit risk. Historical and forward-looking information is considered to determine the appropriate expected credit loss allowance. Provision levels are calculated on the residual credit risk after consideration of any credit protection which is used by the Group. Expected credit losses (ECLs) are applied to net trade receivables which are measured reflecting lifetime ECLs using the simplified approach. Trade receivables are all repayable within 12 months and therefore the ECL provision represents all expected losses within this term.

18. CASH AND CASH EQUIVALENTS

£ million	2021	2020
Cash at bank and in hand	673	791
Short-term deposits and other liquid assets	614	835
	1,287	1,626

£152 million (2020: £154 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time which in all cases is 3 months or less from the date the transfer is requested.

19. TRADE AND OTHER PAYABLES

£ million	2021		2020	
	Current	Non-current	Current	Non-current
Trade payables	1,018	–	1,191	–
Duties payable	5,507	–	6,129	–
Other taxes and social security contributions	1,399	–	1,603	–
Other payables	449	–	464	–
Accruals	733	7	783	5
	9,106	7	10,170	5

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

20. BORROWINGS

The Group's borrowings held at amortised cost, are as follows:

£ million	2021	2020
Current borrowings		
Bank loans and overdrafts	51	61
Capital market issuance:		
€1,000m 2.25% notes due February 2021	–	925
€500m 0.5% notes due July 2021	–	456
€1,000m 9.0% notes due February 2022	1,056	–
Total current borrowings	1,107	1,442
Non-current borrowings		
Bank loans	1	1
Capital market issuance:		
€1,000m 9.0% notes due February 2022	–	1,056
\$1,250m 3.75% notes due July 2022	–	980
\$1,000m 3.5% notes due February 2023	746	782
€750m 1.25% notes due August 2023	646	684
€600m 8.125% notes due March 2024	626	626
\$1,000m 3.125% notes due July 2024	745	782
€500m 1.375% notes due January 2025	434	460
\$1,500m 4.25% notes due July 2025	1,119	1,172
€650m 3.375% notes due February 2026	570	604
\$750m 3.5% notes due July 2026	559	586
€500m 5.5% notes due September 2026	500	500
€750m 2.125% notes due February 2027	653	692
\$1,000m 3.875% notes due July 2029	745	781
€500m 4.875% notes due June 2032	505	504
€1,000m 1.75% notes due March 2033	866	–
Total non-current borrowings	8,715	10,210
Total borrowings	9,822	11,652
Analysed as:		
Capital market issuance	9,770	11,590
Bank loans and overdrafts	52	62

Current and non-current borrowings include interest payable of £56 million (2020: £13 million) and £93 million (2020: £151 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest.

On 30 November 2020, €1,000 million 2.25 per cent notes were repaid. On 18 March 2021, €1,000 million 1.75 per cent notes due March 2033 were issued. On 27 April 2021, €500 million 0.5 per cent notes were repaid. On 29 September 2021, \$1,250 million 3.75 per cent notes were repaid.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2020: no defaults).

NON-CURRENT FINANCIAL LIABILITIES

The maturity profile of the carrying amount of the Group's non-current liabilities as at 30 September 2021 (including lease liabilities detailed in note 14 and net derivative financial instruments detailed in note 22) is as follows:

	2021		
£ million	Borrowings	Lease liabilities	Net derivative financial liabilities/ (assets)
Amounts maturing:			
Between one and two years	1,393	49	(6)
Between two and five years	4,553	75	(9)
In five years or more	2,769	70	508
	8,715	194	593

				2020
£ million	Borrowings	Lease liabilities	Net derivative financial liabilities/ (assets)	Total
Amounts maturing:				
Between one and two years	2,037	54	17	2,108
Between two and five years	4,506	106	(37)	4,575
In five years or more	3,667	75	848	4,590
	10,210	235	828	11,273

FAIR VALUE OF BORROWINGS

The fair value of borrowings as at 30 September 2021 is estimated to be £10,386 million (2020: £12,496 million). £10,334 million (2020: £12,434 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

	2021		2020	
£ million	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	2,686	2,894	2,686	3,054
EUR	3,168	3,278	3,821	3,943
USD	3,916	4,162	5,083	5,437
Total capital market issuance	9,770	10,334	11,590	12,434

UNDRAWN REVOLVING CREDIT FACILITIES

At 30 September the Group had the following undrawn committed facilities:

£ million	2021	2020
Amounts maturing:		
Between one and two years	–	1,551
Between two and five years	3,012	3,193
	3,012	4,744

During the year the maturity date of the Group's existing syndicated multicurrency facility for €3,500 million was extended to 30 September 2024.

During the year six bilateral facilities for a total of €1,700 million were cancelled.

21. FINANCIAL RISK FACTORS

FINANCIAL RISK MANAGEMENT

OVERVIEW

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The treasury function is also responsible for the financial risk management of the Group's global defined benefit pension schemes and management of Group wide insurance programs. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Treasury Committee, which meets when required and comprises the Chief Financial Officer, the Company Secretary, and the Director of Treasury. The Treasury Committee operates in accordance with the terms of reference set out by the Board and a framework (the Treasury Committee framework) which sets out the expectations and boundaries to assist in the effective oversight of treasury activities. The Director of Treasury reports on a regular basis to the Treasury Committee.

The Board reviews and approves all major treasury decisions.

The Group's management of financial risks cover the following:

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

(A) MARKET RISK

PRICE RISK

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 24 and the investment in convertible debentures issued by Auxly Cannabis Group Inc. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

FOREIGN EXCHANGE RISK

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions and profits denominated in foreign currencies, as well as the translation of cash, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in Euro and US dollar exchange rates. Management of the Group's foreign exchange transaction and translation risk is addressed below.

TRANSACTION RISK

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group is also exposed to transaction foreign exchange risk on the conversion of foreign subsidiary earnings into sterling to fund the external dividends to shareholders. This is managed by selling Euros and US dollars monthly throughout the year. Other foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

TRANSLATION RISK

The Group seeks to broadly match the currency of borrowings to the currency of its underlying investments in overseas subsidiaries, which are primarily Euros and US dollars. The Group issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

FOREIGN EXCHANGE SENSITIVITY ANALYSIS

The Group's sensitivity to foreign exchange rate movements, which impacts the translation of monetary items held by subsidiary companies in currencies other than their functional currencies, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2021. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

£ million	2021	2020
	Increase in income	Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of Sterling against Euro (2020: 10%)	378	544
10% appreciation of Sterling against US dollar (2020: 10%)	7	8

An equivalent depreciation of Sterling against the above currencies would cause a decrease in income of £462 million and £9 million for Euro and US dollar exchange rates respectively (2020: £665 million and £10 million).

Movements in equity in the table below relate to intercompany loans treated as quasi-equity under IAS 21 and hedging instruments designated as net investment hedges of the Group's Euro and US Dollar denominated assets.

£ million	2021	2020
	Change in equity	Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of Sterling against Euro (2020: 10%)	264	405
10% appreciation of Sterling against US dollar (2020: 10%)	270	(134)

An equivalent depreciation of Sterling against the above currencies would result in a change in equity of £(323) million and £(330) million for euro and US dollar exchange rates respectively (2020: £(494) million and £163 million).

At 30 September 2021, after the effect of derivative financial instruments, approximately 78 per cent of the Group's net debt was denominated in Euro and non US Dollar currencies (2020: 70 per cent), 22 per cent in US dollars (2020: 30 per cent).

INTEREST RATE RISK

The Group's interest rate risk arises from its borrowings net of cash and cash equivalents, with the primary exposures arising from fluctuations in Euro and US dollar interest rates. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group manages its exposure to interest rate risk on its borrowings by entering into derivative financial instruments, interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee framework and Treasury Committee discussions.

As at 30 September 2021, after adjusting for the effect of derivative financial instruments detailed in note 22, approximately 68 per cent (2020: 71 per cent) of net debt was at fixed rates of interest and 32 per cent (2020: 29 per cent) was at floating rates of interest.

INTEREST RATE SENSITIVITY ANALYSIS

The Group's sensitivity to interest rates on its Euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Group's Income Statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2021, ignoring any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that net debt and the derivatives portfolio remain constant and that there is no net impact on other comprehensive income (2020: £nil).

	2021	2020
£ million	Change in income	Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in Euro interest rates (2020: 1%)	28	28
+/- 1% increase in US dollar interest rates (2020: 1%)	6	8

(B) CREDIT RISK

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Group is primarily exposed to credit risk arising from the extension of credit to its customers, on cash deposits and derivatives. The maximum aggregate credit risk to these sources was £4,177 million at 30 September 2021 (2020: £4,902 million).

TRADE AND OTHER RECEIVABLES

Policies are in place to manage the risk associated with the extension of credit to third parties to ensure that commercial intent is balanced effectively with credit risk management. Subsidiaries have policies in place that require appropriate credit checks on customers and credit is extended with consideration to financial risk and creditworthiness. If a customer requires credit beyond an acceptable limit, security may be put in place to minimise the financial impact in the event of a payment default. Instruments that may typically be used as security include non-recourse receivables factoring and bank guarantees. At 30 September 2021 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement totalled £627 million (2020: £686 million). The total value of trade receivables reclassified as fair value was £69 million at 30 September 2021 (2020: £22 million). There was no valuation difference between amortised cost and fair value. Analysis of trade and other receivables is provided in note 17.

FINANCIAL INSTRUMENTS

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In connection with one ISDA Credit Support Annex the Group had placed £37 million as at 30 September 2021 (2020: £47 million) as collateral with a third party in order to manage their counterparty risk on the Group under derivative financial instruments.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2021. At the balance sheet date management does not expect these counterparties to default on their current obligations.

	2021		2020	
Counterparty exposure	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	A+	35	A+	14
2nd highest	–	–	A	11
3rd highest	–	–	A+	5
4th highest	–	–	A+	2
5th highest	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

(C) LIQUIDITY RISK

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs in any particular location when needed. To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are structured to ensure that the Group has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank term loans, bank revolving credit facilities and European commercial paper.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2021, the Group held liquid assets of £1,287 million (2020: £1,626 million).

The table below summarises the Group's non derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2021. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 22.

		2021				
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	52	52	51	1	–	–
Capital market issuance	9,770	11,158	1,341	1,678	5,068	3,071
Trade payables	1,018	1,018	1,018	–	–	–
Lease liabilities	251	283	54	55	86	78
Total non-derivative financial liabilities	11,091	12,511	2,474	1,734	5,154	3,149

		2020				
£ million	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	62	62	61	1	–	–
Capital market issuance	11,590	13,302	1,806	2,339	5,165	3,992
Trade payables	1,191	1,191	1,191	–	–	–
Lease liabilities	299	332	70	65	110	87
Total non-derivative financial liabilities	13,142	14,887	3,128	2,405	5,275	4,079

CAPITAL MANAGEMENT

The Group defines capital as adjusted net debt and equity and manages its capital structure through an appropriate balance of debt and equity in order to drive an efficient mix for the Group. Besides the minimum capitalisation rules that may apply to subsidiaries in certain countries, the Group's only externally imposed capital requirements are interest cover and gearing covenants contained within its core external bank debt facilities, with which the Group was fully compliant during the current and prior periods and expects to be so going forward.

The Group continues to manage its capital structure to maintain investment grade credit rating which it monitors by reference to a number of key financial ratios, including ongoing consideration of the return of capital to shareholders via regular dividend payments and in on-going discussions with the relevant rating agencies.

As at 30 September 2021 the Group was rated Baa3/stable outlook by Moody's Investor Service Ltd, BBB/A-2/stable outlook by Standard and Poor's Credit Market Services Europe Limited and BBB/F3/stable outlook by Fitch Ratings Limited.

The Group regards its total capital as follows:

£ million	2021	2020
Adjusted net debt (note 31)	8,615	10,299
Equity attributable to the owners of the parent	5,352	4,871
Total capital	13,967	15,170

HEDGE ACCOUNTING

The Group has investments in foreign operations which are consolidated in its financial statements and whose functional currencies are Euros or US dollars. Where it is practicable and cost effective to do so, the foreign exchange rate exposures arising from these investments are hedged through the use of cross currency swaps and foreign currency denominated debt.

The Group only designates the undiscounted spot element of the cross currency swaps and foreign currency debt as hedging instruments. Changes in the fair value of the cross currency swaps attributable to changes in interest rates and the effect of discounting are recognised directly in profit or loss within the "Finance Costs" line – These amounts are, therefore, not included in the hedge effectiveness assessment.

Net investment gains and losses are reported in exchange movements within other comprehensive income and the hedging instrument foreign currency gains deferred to the foreign currency revaluation reserve are detailed in the statement of changes in equity.

The Group establishes the hedging ratio by matching the notional balance of the hedging instruments with an equal notional balance of the net assets of the foreign operation. Given that only the undiscounted spot element of hedging instruments is designated in the hedging relationship, no ineffectiveness is expected unless the notional balance of the designated hedging instruments exceeds the total balance of the foreign operation's net assets during the reporting period. The foreign currency risk component is determined as the change in the carrying amount of designated net assets of the foreign operation arising solely from changes in spot foreign currency exchange rates.

All net investment hedges were fully effective at 30 September 2021.

The following table sets out the maturity profile of the hedging instruments used in the Group's net investment hedging strategies:

£ million	2021				
	Total notional balance	Maturity			
		<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(5,253)	–	(1,389)	(3,219)	(645)
Cross-currency swaps	(2,782)	(1,026)	–	(1,218)	(538)
	(8,035)	(1,026)	(1,389)	(4,437)	(1,183)

£ million	2020				
	Total notional balance	Maturity			
		<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(6,709)	(1,369)	(974)	(3,089)	(1,277)
Cross-currency swaps	(2,950)	–	(1,088)	(704)	(1,158)
	(9,659)	(1,369)	(2,062)	(3,793)	(2,435)

The following table contains details of the hedging instruments and hedged items used in the Group's net investment hedging strategies:

£ million	2021			
	Carrying amount			Changes in fair value used for calculating hedge in effectiveness
	Notional balance	Assets	Liabilities	Balance sheet line item
Hedging instrument:				
Bonds	5,253	–	5,286	Borrowings
Cross-currency swaps	2,782	–	214	Derivative financial instruments
Hedged item:				
Investment in a foreign operation	n/a	8,035		476

£ million	2020			
	Carrying amount			Changes in fair value used for calculating hedge in effectiveness
	Notional balance	Assets	Liabilities	Balance sheet line item
Hedging instrument:				
Bonds	6,709	–	6,755	Borrowings
Cross-currency swaps	2,950	–	410	Derivative financial instruments
Hedged item:				
Investment in a foreign operation	n/a	9,659		(11)

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Reconciliation of changes in the value of net investment hedges:

£ million	2021				
	At the beginning of the year	Income Statement	Other Comprehensive Income	Repayments/ (Borrowings)	At the end of the year
Derivatives in net investment hedges of foreign operations	(410)	28	168	-	(214)
Bonds in net investment hedges of foreign operations	(6,755)	13	308	1,148	(5,286)
Total	(7,165)	41	476	1,148	(5,500)

£ million	2020				
	At the beginning of the year	Income Statement	Other Comprehensive Income	Repayments/ (Borrowings)	At the end of the year
Derivatives in net investment hedges of foreign operations	(341)	17	(86)	-	(410)
Bonds in net investment hedges of foreign operations	(8,482)	87	17	1,623	(6,755)
Total	(8,823)	104	(69)	1,623	(7,165)

The Group also treats certain permanent intragroup loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intragroup loans with a notional value of £2,506 million (2020: £2,506 million) and US dollar loans with a notional value of \$nil (2020: \$5,636 million) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

FAIR VALUE ESTIMATION AND HIERARCHY

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments and the investment in Auxly Cannabis Group Inc. which are carried at fair value. Derivative fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date (Level 2 classification hierarchy per IFRS 7). Market data is sourced through Bloomberg and valuations are validated by reference to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £19 million (2020: £27 million) and would have been a £49 million (2020: £75 million) reduction without considering the early termination options. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance and the Auxly investment, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 20.

AUXLY CANNABIS GROUP INC.

The Group has invested CAD 123 million into Auxly Cannabis Group Inc. by way of a debenture convertible into 19.9 per cent ownership at a conversion price of \$0.81 per share. Repayment of the debenture was due on 25 September 2022, but on 19 April 2021 the debenture agreement was varied and it is now repayable on 25 September 2024. The debenture is valued as a loan receivable measured on the basis of discounting future cash flows at a rate of 14 per cent (2020: 14 per cent) plus the application of an expected credit loss provision. At 30 September 2021 the loan was held at a fair value of £37 million (30 September 2020: £22 million), net of an expected credit loss provision of £16 million (30 September 2020: £36 million).

NETTING ARRANGEMENTS OF FINANCIAL INSTRUMENTS

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's Balance Sheet primarily relate to collateral in respect of one derivative financial instrument under an ISDA Credit Support Annex.

£ million	2021			
	Gross financial assets/ liabilities	Gross collateral assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet
Assets				Net
Derivative financial instruments	496	(37)	459	(435)
Liabilities				
Derivative financial instruments	(1,083)	37	(1,046)	435
				(611)

	2020			
€ million	Gross financial assets/ liabilities	Gross collateral assets/ liabilities set-off	Net financial assets/ liabilities per balance sheet	Related amounts not set-off in the balance sheet
Assets				
Derivative financial instruments	913	(47)	866	(858)
Liabilities				
Derivative financial instruments	(1,729)	47	(1,682)	858
Net				

The table below sets out the Group's accounting classification of each class of financial assets and liabilities:

	2021					
€ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
Trade and other receivables	37	-	2,611	2,648	2,590	58
Cash and cash equivalents	-	-	1,287	1,287	1,287	-
Derivatives	459	-	-	459	68	391
Total financial assets	496	-	3,898	4,394	3,945	449
Borrowings	-	-	(9,822)	(9,822)	(1,107)	(8,715)
Trade and other payables	-	-	(8,373)	(8,373)	(8,373)	-
Derivatives	(832)	(214)	-	(1,046)	(62)	(984)
Lease liabilities	-	-	(251)	(251)	(57)	(194)
Total financial liabilities	(832)	(214)	(18,446)	(19,492)	(9,599)	(9,893)
Total net financial (liabilities)	(336)	(214)	(14,548)	(15,098)	(5,654)	(9,444)

	2020					
€ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
Trade and other receivables	22	-	2,502	2,524	2,476	48
Cash and cash equivalents	-	-	1,626	1,626	1,626	-
Derivatives	866	-	-	866	53	813
Total financial assets	888	-	4,128	5,016	4,155	861
Borrowings	-	-	(11,652)	(11,652)	(1,442)	(10,210)
Trade and other payables	-	-	(9,387)	(9,387)	(9,387)	-
Derivatives	(1,272)	(410)	-	(1,682)	(41)	(1,641)
Lease liabilities	-	-	(299)	(299)	(64)	(235)
Total financial liabilities	(1,272)	(410)	(21,338)	(23,020)	(10,934)	(12,086)
Total net financial (liabilities)	(384)	(410)	(17,210)	(18,004)	(6,779)	(11,225)

Derivatives classified as fair value through other comprehensive income relate to cross currency swaps designated as hedges of foreign currency denominated net investments. The Group only designates the undiscounted foreign exchange spot element of the cross currency swaps and the changes in fair value related to this element are posted to other comprehensive income. Changes in the fair value of the cross currency swaps attributable to changes in interest rates and the effect of discounting are recognised in the income statement. The Group also designates certain bonds as hedges of foreign currency denominated net investments and the foreign exchange revaluation of those bonds is recognised in other comprehensive income. The carrying value at 30 September 2021 of those bonds included in the above table is £5,286 million (2020: £6,755 million). All of the Group's net investment hedges remain effective.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments held at fair value, are as follows:

£ million	2021			2020		
	Assets	Liabilities	Net Fair Value	Assets	Liabilities	Net Fair Value
Current derivative financial instruments						
Interest rate swaps	60	(33)	27	41	(31)	10
Foreign exchange contracts	4	(4)	–	9	(10)	(1)
Cross-currency swaps	4	(25)	(21)	3	–	3
Total current derivatives	68	(62)	6	53	(41)	12
Collateral ¹	–	–	–	–	–	–
	68	(62)	6	53	(41)	12
Non-current derivative financial instruments						
Interest rate swaps	391	(780)	(389)	813	(1,204)	(391)
Cross-currency swaps	–	(241)	(241)	–	(484)	(484)
Total non-current derivatives	391	(1,021)	(630)	813	(1,688)	(875)
Collateral ¹	–	37	37	–	47	47
	391	(984)	(593)	813	(1,641)	(828)
Total carrying value of derivative financial instruments	459	(1,046)	(587)	866	(1,682)	(816)
Analysed as:						
Interest rate swaps	451	(813)	(362)	854	(1,235)	(381)
Foreign exchange contracts	4	(4)	–	9	(10)	(1)
Cross-currency swaps	4	(266)	(262)	3	(484)	(481)
Collateral ¹	–	37	37	–	47	47
Total carrying value of derivative financial instruments	459	(1,046)	(587)	866	(1,682)	(816)

1. Collateral deposited against derivative financial liabilities under the terms and conditions of collateral appendices.

Fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date. Market data is sourced from a well known financial data company and valuations are validated by reference to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £19 million (2020: £27 million) and would have been a £49 million (2020: £75 million) reduction without considering the early termination options. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 21.

MATURITY OF OBLIGATIONS UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of any early termination options being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2021. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2021. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non derivative financial instruments are detailed in note 21.

£ million	2021					
	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(325)	(480)	16	(1)	(157)	(338)
Gross settled derivatives	(262)	–	–	–	–	–
– receipts	–	5,667	2,516	66	2,522	563
– payments	–	(5,818)	(2,521)	(48)	(2,661)	(588)
	(587)	(631)	11	17	(296)	(363)

£ million	2020					
	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	>5 years
Net settled derivatives	(335)	(479)	62	19	(104)	(456)
Gross settled derivatives	(481)	–	–	–	–	–
– receipts	–	6,530	2,240	1,084	1,528	1,678
– payments	–	(6,858)	(2,221)	(1,153)	(1,633)	(1,851)
	(816)	(807)	81	(50)	(209)	(629)

DERIVATIVES AS HEDGING INSTRUMENTS

As outlined in note 21, the Group hedges its underlying interest rate exposure and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross currency swaps. Foreign exchange contracts are used to manage the Group's short term liquidity requirements in line with short term cash flow forecasts as appropriate.

The Group does not apply cash flow or fair value hedge accounting, as permitted under IFRS9, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

The group has considered the impending requirements to re-base LIBOR based interest rates to new risk-free based rates. The group is currently undertaking an exercise to re-base to risk-free rates all its affected interest rate derivative contracts that mature after the end of September 2021. GBP LIBOR contracts will be rebased to SONIA in the last quarter of the 2021 calendar year with USD LIBOR contracts to be rebased later in the 2022 fiscal year. At present, it is not anticipated that these changes will impact the Group's commercial hedging strategy, nor should they have a material financial impact.

INTEREST RATE SWAPS

To manage interest rate risk on its borrowings, the Group issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination or duration, and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates. Interest rate swaps are also transacted to manage and re-profile the Group's interest rate risk over the short, medium and long term in accordance with the Treasury Committee framework and Treasury Committee discussions. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2021, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £10,775 million equivalent (2020: £11,656 million equivalent) with a fair value of £425 million asset (2020: £854 million asset). The fixed interest rates vary from 1.1 per cent to 8.7 per cent (2020: 0.5 per cent to 8.7 per cent), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR.

As at 30 September 2021, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £8,806 million equivalent (2020: £10,311 million equivalent) with a fair value of £750 million liability (2020: £1,189 million liability). The fixed interest rates vary from 0.5 per cent to 4.4 per cent (2020: 0.5 per cent to 4.4 per cent), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR. This includes forward starting interest rate swaps with a total notional amount of £1,531 million equivalent (2020: £2,519 million equivalent) with tenors between 3.5 and 6 years, starting between May 2022 and October 2024.

All of the Group's GBP and USD interest rate swaps will be impacted by the changes to the use of LIBOR interest rates. However, the impact of the changes is not expected to be material.

CROSS-CURRENCY SWAPS

The Group enters into cross currency swaps to convert the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period unless the swaps are designated as hedges of a net investment in foreign operations, in which case the fair value movement attributable to changes in foreign exchange rates are recognised in other comprehensive income.

As at 30 September 2021, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £2,600 million (2020: £2,600 million) and the fair value of these swaps was £214 million net liability (2020: £409 million net liability); the notional amount of cross currency swaps entered into to convert floating rate US dollar debt into the desired currency at floating rates of interest was \$1,750 million (2020: \$1,750 million) and the fair value of these swaps was £48 million net liability (2020: £71 million net liability).

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

As at 30 September 2021, cross currency swaps with a notional amount of €3,233 million (2020: €3,233 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation gains amounting to £168 million (2020: £87 million losses) were recognised within exchange movements in other comprehensive income in respect of cross currency swaps that had been designated as hedges of a net investment in foreign operations. No hedging ineffectiveness occurred during the year (2020: £nil).

The movements in Other Comprehensive Income due to net investment hedging in the period were as follows:

£ million	2021	2020
Foreign exchange gains/(losses) on borrowings	308	(75)
Foreign exchange gains on derivative financial instruments	168	87
Reclassification to the Income Statement	117	–
	593	12

All of the Group's cross currency swaps will be impacted by the changes to the use of LIBOR interest rates. However, this will not impact the effectiveness of the contracts in their net investment hedge relationship and the calculation of the amounts recognised in other comprehensive income will be unaffected.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

FOREIGN EXCHANGE CONTRACTS

The Group enters into foreign exchange contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2021, the notional amount of these contracts was £1,430 million equivalent (2020: £2,126 million equivalent) and the fair value of these contracts was a net liability of £0.6 million (2020: £0.7 million net liability).

23. DEFERRED TAX ASSETS AND LIABILITIES

DEFERRED TAX ASSETS

£ million	Consolidated income statement 2021	Consolidated income statement 2020	Consolidated balance sheet 2021	Consolidated balance sheet 2020
Accelerated depreciation and amortisation	(7)	34	(864)	(871)
Retirement benefits	(38)	(17)	(23)	88
Other temporary differences	201	(32)	414	240
Deferred tax expense	156	(15)		
Net deferred tax liabilities			(473)	(543)

REFLECTED IN THE CONSOLIDATED BALANCE SHEET AS FOLLOWS

£ million	2021	2020
Deferred tax assets	564	381
Deferred tax liabilities	(1,037)	(924)
	(473)	(543)

RECONCILIATION OF NET DEFERRED TAX LIABILITIES

£ million	2021	2020
As at 1 October	(543)	(561)
Charged to the income statement	156	(15)
(Charged)/credited to other comprehensive income	(33)	27
Transferred to held for disposal	–	1
Exchange movements	(55)	10
Other movements	2	(5)
As at 30 September	(473)	(543)

Included within net deferred tax liabilities are deferred tax assets recognised of £267million (2020: £42 million) for tax credits arising in the Group's Spanish business. The majority (£239 million) of these tax credits were recognised in the current year following an internal reorganisation of the Spanish business. These tax credits have no time expiry. Utilisation of these tax credits is restricted to 50% of the Spanish business' taxable profits arising in any given year, those tax law restrictions extend the period over which the deferred tax assets would otherwise be recovered. The Group considers there to be forecast future taxable profits which support the recognition of these long term deferred tax assets. The period over which these deferred tax assets are utilised is sensitive to forecasting assumptions about future growth rates (which may be influenced by the future effects of climate change) and regulatory changes. Any material effects of climate change in the long term could extend the period over which the deferred tax asset will be recovered but as the tax credits do not expire, the Group considers there is positive evidence that sufficient future taxable profits would still be available. Based on a range of forecast scenarios modelling sensitivities these deferred tax assets are expected to be utilised over a period of 20-25 years. Deferred tax assets of £57 million (2020: £63 million) for tax credits have not been recognised due to the potential uncertainty of the utilisation of the credits. Of these unrecognised deferred tax assets £57 million (2020: £63 million) are expected to expire between 2022 and 2027.

Included within net deferred tax liabilities are deferred tax assets recognised for retirement benefits of £157 million (2020: £176 million) arising in the Group's German business. These deferred tax assets are expected to be recovered both by way of utilisation against the reversal of deferred tax liabilities of £33 million (2020: £7 million) arising in the Group's German business and by way of utilisation against future taxable profits. The Group considers there to be forecast future taxable profits which support the recognition of these long term deferred tax assets. These deferred tax assets are expected to be recovered over a period of 20-40 years corresponding to the life of the pension scheme.

Within Other temporary differences, deferred tax assets of £25 million (2020: £84 million) are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at the balance sheet date, deferred tax assets of £130 million (2020: £152 million) for tax losses, and £13 million (2020: £17 million) for other temporary differences, have not been recognised due to the potential uncertainty of the utilisation of the tax losses and other temporary differences in certain jurisdictions. Of these unrecognised deferred tax assets for tax losses £1 million (2020: £30 million) are expected to expire within 1 year and £8 million (2020: £9 million) are expected to expire within 5 years and the remaining £121 million (2020: £113 million) has no time expiry. The deferred tax assets for other temporary differences of £13 million (2020: £17 million) have no time expiry.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance. In 2021 we recognised deferred tax assets of £8 million that were previously unrecognised (2020: derecognised deferred tax assets of £51 million that were previously recognised) on the basis that it is more likely than not that these are recoverable (2020: irrecoverable).

A deferred tax liability of £101 million (2020: £111 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £5 billion (2020: £7 billion).

The temporary differences associated with investments in the Group's subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised in the periods presented, aggregate to £29 million (2020: £16 million). No liability has been recognised because the Group is in a position to control the timing of the reversal of those temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The UK government announced in its budget on 3 March 2021 that it would increase the main rate of corporation tax by 6% to 25% with effect from 1 April 2023. This change was substantively enacted on 24 May 2021 and, as a result, the effect has been reflected in the closing deferred tax position included in these financial statements.

24. RETIREMENT BENEFIT SCHEMES

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited (ITL) in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands in the USA; these schemes represent 64 per cent, 14 per cent and 8 per cent of the Group's total defined benefit obligations and 35 per cent, 33 per cent and 7 per cent of the current service cost respectively.

IMPERIAL TOBACCO PENSION FUND

The UK scheme, the Imperial Tobacco Pension Fund (or 'ITPF' or 'Fund'), is a voluntary final salary pension scheme with a normal retirement age of 60 for most members. The ITPF was offered to employees who joined the company before 1 October 2010 and has a weighted average maturity of 17 years. Effective from 1 September 2017, members' pensionable pay was capped at the higher of £75,000 or their pensionable pay at 1 September 2017. By number, the population as at the most recent funding valuation comprises 72 per cent in respect of pensioners and dependants, 26 per cent in respect of deferred members and 2 per cent in respect of current employees. New employees in the UK are now offered a defined contribution scheme. In certain circumstances, surplus funds in the defined benefit section, may be used to finance defined contribution section contributions on ITL's behalf with company contributions reduced accordingly.

The ITPF operates under trust law and is managed and administered by the Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The ITPF's assets are held by the trust.

The main risk for the Group in respect of the ITPF is that additional contributions are required if the assets are not expected to be sufficient to pay for the benefits. The investment portfolio is subject to a range of risks typical of the asset classes held, such as credit risk on bonds, and exposure to the property market.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels (including the impact of inflation on future salary increases below the pensionable pay cap) and the actual longevity of the membership.

The contributions paid to the ITPF are set by the ITPF Scheme Actuary every three years. The Scheme Actuary is an external consultant, appointed by the Trustees. Principal factors that the Scheme Actuary will have regard to include the covenant offered by the Group, the level of risk in the ITPF, the expected returns on the ITPF's assets, the results of the funding assessment on an ongoing basis and the expected cost of securing benefits if the Fund were to be wound up.

The latest valuation of the ITPF was carried out as at 31 March 2019 when the market value of the invested assets was £4,137 million. Based on the ongoing funding target the total assets were sufficient to cover 110 per cent of the benefits that had accrued to members for past service, after allowing for expected future pay increases. The total assets were sufficient to cover 106 per cent of the total benefits that had accrued to members for past service and future service benefits for current members. In compliance with the Pensions Act 2004, ITL and the Trustee agreed a scheme-specific funding target, a statement of funding principles and a schedule of contributions accordingly.

Following the valuation, a dynamic contribution schedule has been agreed such that ITL's annual contributions will reduce or increase depending on the Fund's valuation going forward. The level of the ITL's annual contribution to the Fund is £65 million per year for the year to 31 March 2022. Further contributions were agreed to be paid by ITL in the event of a downgrade of the Group's credit rating to non-investment grade by either Standard & Poor's or Moody's. In addition, surety guarantees that were provided with a total value of £600 million have been reduced to £225 million following the latest valuation and a parental guarantee from Imperial Brands PLC remains in place.

The IAS 19 liability measurement of the defined benefit obligation (DBO) and the current service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectancy. They are also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the funding and IAS 19 assumptions are a more prudent longevity assumption for funding and a different approach to setting the discount rate. A consequence of the ITPF's investment strategy, with a proportion of the assets invested in return-seeking assets, is that the difference between the market value of the assets and the IAS 19 liabilities may be relatively volatile.

The ITPF has a pension surplus on the IAS 19 measure, in line with IFRIC 14, recognition of the net asset on the fund is only appropriate where it can be recovered. The ITPF trust deed gives the Group an ability to receive a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up the Fund or otherwise augment the benefits due to the Fund's members. Based on these circumstances, any net surplus in this scheme is recognised in full.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

THE REEMTSMA CIGARETTENFABRIKEN PENSION PLAN

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan, though a small group of members has final salary benefits. It has a weighted average maturity of 19 years. The scheme population comprises 51 per cent in respect of pensioners, 19 per cent in respect of deferred members and 30 per cent in respect of current employees. It was closed to new members from 1 January 2020, but existing active members at that date continue to accrue benefits in the plan.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £23 million in respect of benefits.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the plan are future inflation levels and the actual longevity of the membership.

The IAS 19 liability measurement of the DBO and the current service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro denominated AA corporate bonds.

ITG SCHEME

The main USA pension scheme, held by ITG Brands is the ITG Scheme, a defined benefit pension plan that is closed to new entrants. It has a weighted average maturity of 11 years. The population comprises 77 per cent in respect of pensioners, 10 per cent in respect of deferred members and 13 per cent in respect of current employees.

The plan is funded and benefits are paid from the plan assets. Contributions to the plan are determined based on US regulatory requirements and ITG Brands is not expected to make any contributions in the next year.

Annual benefits in payment are assumed not to increase from current levels. The main uncertainty affecting the level of benefits payable under the plan is the actual longevity of the membership. Other key uncertainties impacting the plan include investment risk and potential past service benefit changes from future negotiations.

The IAS 19 liability measurement of the DBO and the service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on US dollar denominated AA corporate bonds.

OTHER PLANS

Other plans of the Group include various pension plans, other post-employment and long-term employee benefit plans in several countries of operation. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local territories. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

For the year ended 30 September 2021 the group included four new schemes associated with operations in the Dominican Republic, Poland and Australia in the IAS19 position following a review of the pension schemes in the group.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2021 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

DEFINED BENEFIT PLANS

£ million	2021			2020		
	DBO	Assets	Total	DBO	Assets	Total
At 1 October	(5,498)	5,182	(316)	(5,877)	5,223	(654)
Consolidated income statement expense						
Current service cost	(47)	–	(47)	(49)	–	(49)
Settlements gains/(losses)	13	(13)	–	–	–	–
Past service costs	9	–	9	–	–	–
Cost of termination benefits	(18)	–	(18)	(2)	–	(2)
Net interest (expense)/income on net defined benefit (liability)/asset	(87)	89	2	(104)	99	(5)
Administration costs paid from plan assets	–	(5)	(5)	–	(6)	(6)
Cost recognised in the income statement			(59)			(62)
Remeasurements						
Actuarial gain due to liability experience	64	–	64	36	–	36
Actuarial (loss)/gain due to financial assumption changes	(114)	–	(114)	22	–	22
Actuarial gain/(loss) due to demographic assumption changes	4	–	4	228	–	228
Return on plan assets excluding amounts included in net interest income/(expense) above	–	87	87	–	(9)	(9)
Remeasurement effects recognised in other comprehensive income			41			277
Cash						
Employer contributions	–	126	126	–	145	145
Employee contributions	(1)	1	–	(1)	1	–
Benefits paid directly by the company	264	(264)	–	266	(266)	–
Net cash			126			145
Schemes brought into scope of IAS19	(13)	–	(13)	–	–	–
Exchange movements	105	(37)	68	(17)	(5)	(22)
Total other			55			(22)
At 30 September	(5,319)	5,166	(153)	(5,498)	5,182	(316)

The cost of termination benefits in the year ended 30 September 2021 and 30 September 2020 mainly relate to restructuring activity in Germany.

RETIREMENT BENEFIT SCHEME COSTS CHARGED TO OPERATING PROFIT

£ million	2021	2020
Defined benefit expense in operating profit	61	57
Defined contribution expense in operating profit	19	17
Total retirement benefit scheme cost in operating profit	80	74

Split as follows in the consolidated income statement:

£ million	2021	2020
Cost of sales	26	24
Distribution, advertising and selling costs	33	31
Administrative and other expenses	21	19
Total retirement benefit scheme costs in operating profit	80	74

ASSETS AND LIABILITIES RECOGNISED IN THE CONSOLIDATED BALANCE SHEET

£ million	2021	2020
Retirement benefit assets	1,046	940
Retirement benefit liabilities	(1,199)	(1,256)
Net retirement benefit liability	(153)	(316)

KEY FIGURES AND ASSUMPTIONS USED FOR MAJOR PLANS

£ million unless otherwise indicated	2021			2020		
	ITPF	RCPP	ITGBH	ITPF	RCPP	ITGBH
Defined benefit obligation (DBO)	3,404	765	403	3,516	764	434
Fair value of scheme assets	(4,386)	–	(396)	(4,395)	–	(398)
Net defined benefit (asset)/liability	(982)	765	7	(879)	764	36
Current service cost	17	15	3	18	16	4
Employer contributions	65	–	–	85	–	–
Principal actuarial assumptions used (% per annum)						
Discount rate	2.1	1.1	2.7	1.7	0.9	2.8
Future salary increases	3.4	3.1	n/a	2.9	2.4	n/a
Future pension increases	3.4	2.0	n/a	2.9	1.3	n/a
Inflation	3.4	2.0	2.3	2.9	1.3	2.5

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

						2021
	ITPF		RCPP		ITGBH	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.1	22.7	20.5	23.9	19.7	21.7
Member currently aged 50	22.1	23.9	22.5	25.5	20.9	22.9

						2020
	ITPF		RCPP		ITGBH	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65 years:						
Member currently aged 65	21.1	22.7	20.3	23.8	19.7	21.7
Member currently aged 50	22.0	23.8	22.4	25.5	20.9	22.9

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS S3 (2020: SAPS S3) tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS S3 All Pensioner Male Amounts table with a 101 per cent multiplier. An allowance for improvements in longevity is made using the 2018 (2020: 2018) CMI improvement rates with a long-term trend of 1.25 per cent per annum.

SENSITIVITY ANALYSIS FOR KEY ASSUMPTIONS AT THE END OF THE YEAR

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant.

	2021			2020		
% increase in DBO	ITPF	RCPP	ITGBH	ITPF	RCPP	ITGBH
Discount rate: 0.5% decrease	8.6	10.8	5.8	8.7	10.3	6.0
Rate of inflation: 0.5% decrease	6.9	7.0	n/a	7.0	6.7	n/a
One year increase in longevity for a member currently age 65, corresponding changes at other ages	5.1	5.1	5.1	4.9	4.8	5.0

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate.

We estimate that a 0.5 per cent decrease in the discount rate at the start of the year would have increased the consolidated income statement pension expense by approximately £14 million.

An approximate split of the major categories of ITPF scheme assets is as follows:

	2021		2020	
		Percentage of ITPF scheme assets		Percentage of ITPF scheme assets
£ million unless otherwise indicated	Fair value		Fair value	
Equities	–	–	1	–
Bonds – index linked government	2,115	48	2,344	53
Bonds – corporate and other	815	19	693	16
Property	592	14	533	12
Absolute return	849	19	809	18
Other – including derivatives, commodities and cash	15	–	15	1
	4,386	100	4,395	100

The primary investment objective is to invest the ITPF's assets in an appropriate and secure manner such that members' benefit entitlements can be paid as they fall due. Specifically the ITPF targets an expected return in excess of the growth in the liabilities, which in conjunction with the contributions paid is consistent to achieve and maintain an ongoing funding level of at least 100 per cent on a buy-out basis by 2028.

The majority of the assets are quoted. The ITPF holds £nil of self-invested assets (2020: £nil). As in previous years, the value of ground leases have been allocated to the property asset class.

An approximate split of the major categories of ITGBH scheme assets is as follows:

	2021		2020	
	Fair value	Percentage of ITCBH scheme assets	Fair value	Percentage of ITCBH scheme assets
£ million unless otherwise indicated				
Investment funds	279	70	224	56
Bonds – fixed government	20	5	45	11
Bonds – corporate and other	63	16	121	31
Other – including derivatives, commodities and cash	34	9	8	2
	396	100	398	100

The majority of the assets are non-quoted.

25. PROVISIONS

£ million	Restructuring	Other	2021 Total
At 1 October 2020	253	163	416
Additional provisions charged to the consolidated income statement	141	50	191
Amounts used	(63)	(39)	(102)
Unused amounts reversed	(66)	(24)	(90)
Exchange movements	(14)	(7)	(21)
At 30 September 2021	251	143	394

Analysed as:

£ million	2021	2020
Current	188	220
Non-current	206	196
	394	416

Restructuring provisions relate mainly to our 2021 Strategic Review Programme and Cost optimisation programmes (see note 5).

The restructuring provision is split between 2021 Strategic Review Programme of £86 million, Cost Optimisation Programmes of £155 million and other programmes of £10 million.

Within the Cost optimisation programme provisions there is £73 million related to costs of consolidating the manufacturing capacity within the Group. It is expected that the Cost optimisation programmes restructuring provisions will be predominantly utilised over the next 2 years.

Other provisions include £41 million relating to local employment requirements including holiday pay, £58 million relating to various local tax or duty requirements and £23 million of employment and duty provisions associated with distribution. The provisions are spread throughout the Group and payment will be dependent on local statutory requirements.

26. SHARE CAPITAL

£ million	2021	2020
Authorised, issued and fully paid		
1,020,697,238 ordinary shares of 10p each (2020: 1,020,697,238)	103	103

During the year nil shares (2020: 5,098,508 shares) were repurchased and immediately cancelled, increasing the Capital Redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve, and between September 2017 and December 2017, 4,973,916 shares were cancelled increasing this reserve.

27. SHARE SCHEMES

The Group operates four types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

SHARE MATCHING SCHEME

Awards are made to eligible employees who are invited to invest a proportion of their eligible bonus in shares for a period of three years, after which matching shares are awarded on a 1:1 ratio, plus dividend equivalents.

LONG TERM INCENTIVE PLAN (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria. Dividend equivalents accrue on vested shares.

SHARESAVE PLAN

Options are granted to eligible employees who participate in a designated savings scheme for a three year period. Historically they were also granted for a five year period.

DISCRETIONARY SHARE AWARDS PLAN (DSAP)

Under the DSAP, one-off conditional awards are made to individuals to recognise exceptional contributions within the business. Awards, which are not subject to performance conditions and under which vested shares do not attract dividend roll-up, will normally vest on the third anniversary of the date of grant subject to the participant's continued employment. The limit of an award under the DSAP is capped at 25 per cent of the participant's salary at the date of grant. Shares used to settle awards under the DSAP will be market purchased.

Further details of the schemes including additional criteria applying to Directors and some senior executives are set out in the Directors' Remuneration Report.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

ANALYSIS OF CHARGE TO THE CONSOLIDATED INCOME STATEMENT

£ million	2021	2020
Share Matching Scheme	3	4
Long Term Incentive Plan	20	13
Sharesave Plan	1	2
Discretionary Share Awards Plan	1	1
	25	20

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2021 was £1.8 million (2020 £1.2 million).

RECONCILIATION OF MOVEMENTS IN AWARDS/OPTIONS

	2021				
Thousands of shares unless otherwise indicated	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2020	461	6,595	2,006	70	15.31
Granted	253	3,763	371	17	13.09
Lapsed/cancelled	(25)	(2,003)	(323)	(3)	21.74
Exercised	(207)	(943)	(1)	(24)	5.45
Outstanding at 30 September 2021	482	7,412	2,053	60	13.89
Exercisable at 30 September 2021	-	-	170	-	22.24

	2020				
Thousands of shares unless otherwise indicated	Share matching scheme awards	LTIP awards	Sharesave options	DSAP awards	Sharesave weighted average exercise price £
Outstanding at 1 October 2019	783	4,313	1,559	94	21.21
Granted	297	3,187	1,386	2	12.99
Lapsed/cancelled	(19)	(782)	(939)	(5)	20.81
Exercised	(600)	(123)	-	(21)	25.01
Outstanding at 30 September 2020	461	6,595	2,006	70	15.31
Exercisable at 30 September 2020	-	-	147	-	29.62

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £14.96 (2020: £19.34).
The weighted average fair value of Sharesave options granted during the year was £2.35 (2020: £2.37).

SUMMARY OF AWARDS/OPTIONS OUTSTANDING AT 30 SEPTEMBER 2021

Thousands of shares unless otherwise indicated	Number of awards/ options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2019	114	5	n/a
2020	156	17	n/a
2021	212	29	n/a
Total awards outstanding	482		
Long Term Incentive Plan			
2019	1,512	5	n/a
2020	2,526	18	n/a
2021	3,374	30	n/a
Total awards outstanding	7,412		
Sharesave Plan			
2018	170	–	22.24
2019	231	11	17.45
2020	1,279	23	12.37
2021	373	35	13.09
Total options outstanding	2,053		
Discretionary Share Awards Plan			
2018	–	–	n/a
2019	42	5	n/a
2020	–	–	n/a
2021	18	29	n/a
Total options outstanding	60		

The vesting period is the period between the grant of awards or options and the earliest date on which they are exercisable. The vesting period remaining and the exercise price of options outstanding are weighted averages. Participants in the Sharesave Plan have six months from the maturity date to exercise their option. Participants in the LTIP generally have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option.

PRICING

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme, Sharesave Plan, Discretionary Shares Awards Plan and one Long Term Incentive Plan with no market conditions. A summary of the assumptions used in the Black-Scholes model for 2021 and 2020 is as follows:

	2021		
	Share matching	Sharesave	DSAP
Risk-free interest rate %	0.7	0.2-(0.4)	0.7
Volatility (based on 3 or 5 year history) %	36.0	33.9-33.9	26.3
Expected lives of options granted years	3.00	3.00	3.00
Dividend yield %	8.85	8.85	6.7
Fair value £	12.37	2.31-2.56	12.86
Share price used to determine exercise price £	16.00	16	15.27
Exercise price £	n/a	13.09	n/a
	2020		
	Share matching	Sharesave	
Risk-free interest rate %	0.7	0.2-(0.4)	
Volatility (based on 3 or 5 year history) %	29.0	33.8-33.9	
Expected lives of options granted years	3.00	3.00	
Dividend yield %	8.85	8.84	
Fair value £	14.00	2.39-2.45	
Share price used to determine exercise price £	18.25	15.20-15.26	
Exercise price £	n/a	12.37	

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2021 and 2020 are given in the following table:

%	2021	2020
Future Imperial Brands share price volatility	31.2	20.0
Future Imperial Brands dividend yield	–	–
Share price volatility of the tobacco and alcohol comparator group	17.4-40.9	14.7-28.3
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	26.7	22.1

EMPLOYEE SHARE OWNERSHIP TRUSTS

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £147.5 million. In addition the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2021. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

SHARES HELD BY EMPLOYEE SHARE OWNERSHIP TRUSTS

Millions of shares	2021	2020
At 1 October	2.1	2.8
Gift of shares from Treasury	–	–
Distribution of shares held by Employee Share Ownership Trusts	(1.2)	(0.7)
At 30 September	0.9	2.1

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2020: nil) and 0.9 million (2020: 2.1 million) treasury shares gifted to the Trusts by the Group. There were nil (2020: nil) shares gifted in the financial year 2021.

28. TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 percent of issued share capital. During the year the Group purchased nil shares at a cost of £nil million (2020: 5,098,508 shares at a cost of £92 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

£ million unless otherwise indicated	2021		2020	
	Millions of shares (number)	Value	Millions of shares (number)	Value
At 1 October	74.3	2,183	74.3	2,183
Purchase of shares	–	–	5.1	92
Cancellation of shares	–	–	(5.1)	(92)
Gifted to Employee Share Ownership Trusts	–	–	–	–
At 30 September	74.3	2,183	74.3	2,183
Percentage of issued share capital	7.3	n/a	7.3	n/a

29. COMMITMENTS

CAPITAL COMMITMENTS

£ million	2021	2020
Contracted but not provided for:		
Property, plant and equipment and software	86	187

30. CONTINGENT LIABILITIES

Where contingent liabilities are disclosed and not quantified this is because it is not practicable to do so.

USA STATE SETTLEMENT AGREEMENTS

In November 1998, the major US cigarette manufacturers, including Reynolds and Philip Morris, entered into the Master Settlement Agreement (MSA) with 52 US states and territories and possessions. These cigarette manufacturers previously settled four other cases, brought by Mississippi, Florida, Texas and Minnesota, by separate agreements with each state (collectively with the MSA, the State Settlement Agreements). These State Settlement Agreements settled all health care cost recovery actions brought by, or on behalf of, the settling jurisdictions against the defendants (the major US cigarette manufacturers); released the defendants from various additional present and potential future claims; imposed future payment obligations based on market share in the US; and significantly restricted their ability to market and sell cigarettes.

ITG Brands (ITGB) and its affiliates were not defendants in the litigations that led to the State Settlement Agreements. However, the MSA contained a provision allowing manufacturers that were not defendants to become parties. Under that provision ITGB and certain affiliates (including its US affiliate Commonwealth Brands, Inc.) became parties to the MSA. They make substantial annual

MSA payments based on market share in the US and other factors, and are subject to the MSA's restrictions on their ability to market and sell cigarettes.

On 12 June 2015, ITGB acquired four cigarette brands (Winston, Salem, Kool and Maverick, referred to as the Acquired Brands) from Reynolds and Lorillard Tobacco, in connection with Reynolds' parent's acquisition of the stock of Lorillard Tobacco's parent. Because the MSA requires a purchaser of a brand to assume settlement liability, the Asset Purchase Agreement (APA) between Reynolds and ITGB required ITGB to assume MSA settlement payments on the Acquired Brands. There is no similar mechanism permitting companies that were not defendants to join the settlements with the four states that are not parties to the MSA (Florida, Minnesota, Mississippi, and Texas, collectively called the Previously Settled States or PSS). For those settlements, the APA required ITGB to use reasonable best efforts, with the assistance and cooperation of Reynolds and Lorillard Tobacco, to reach agreement with the PSS to make settlement payments on the Acquired Brands on certain terms and conditions.

Effective 12 June 2015, the date of closing of the transaction, ITGB became a party to the Mississippi settlement as to the Acquired Brands. ITGB had not become a party to the settlements with Florida, Minnesota, or Texas by the date of closing. Two of those states, Minnesota, and Texas, have statutes imposing fees on distributors' sales of products manufactured by companies that are not parties to the settlements, and post-closing fees were paid on sales of ITGB and affiliates' products in those states under those statutes from and after 12 June 2015.

Claims have been made against ITGB in connection with the acquisition of the Acquired Brands:

FLORIDA

On 18 January 2017 Florida and Philip Morris filed motions with the Florida court with jurisdiction over the settlement claiming that Reynolds and/or ITGB must make payments on the Acquired Brands under the Florida settlement. Florida and Philip Morris alleged that ITGB was a "successor" or "assign" to Reynolds' settlement obligations. On 27 December 2017 the court ruled that Reynolds was liable for settlement payments on the Acquired Brands, but ITGB was not because it was not a "successor" or "assign" to Reynolds. On 29 July 2020 the intermediate Florida appellate court affirmed. Reynolds asked that court for reconsideration and for permission to appeal to the Florida Supreme Court. On 18 September 2020, the intermediate appellate court denied that motion. On 18 October 2020, Reynolds asked the Florida Supreme Court directly to permit it to appeal. On 18 December 2020, the Florida Supreme Court denied Reynolds' petition for a further appeal.

Florida sought settlement payments on the Acquired Brands of approximately \$127 million plus interest, plus future annual payments based on market share of approximately \$26 million. The Florida court's decision that Reynolds, not ITGB, must make these settlement payments to Florida is now final and unappealable and Reynolds is making the payments. Reynolds has asked the Delaware court to order the Group to indemnify it for those obligations, in the proceeding described below.

MINNESOTA

On 23 March 2018 Minnesota filed a complaint and motion and Philip Morris filed a motion with the Minnesota state court with jurisdiction over the settlement claiming that Reynolds and/or ITGB must make payments on the Acquired Brands under the Minnesota settlement. Minnesota and Philip Morris alleged that ITGB was a "successor" or "assign" to Reynolds' settlement obligations. On 24 September 2019 the court ruled that Reynolds was liable for settlement payments on the Acquired Brands. The court held that whether ITGB was a "successor" or "assign" under the Minnesota settlement would be determined by whether ITGB had breached its duty under the APA with Reynolds to use reasonable best efforts to reach agreement with Minnesota to join that settlement. On 19 February 2020 the Minnesota court denied ITGB's motion seeking an immediate interlocutory appeal. The Minnesota court held a trial on whether ITG used its reasonable best efforts to reach agreement with Minnesota to join the settlement on 31 August and 1-2 and 9 September 2020. Post-trial briefing and proposed findings of fact and conclusions of law were submitted on 13 November 2020, but the case was resolved before any decision was entered.

The parties have resolved the litigation in Minnesota, with the Court ordering dismissal of the claims with prejudice on 17 March 2021. Minnesota sought settlement payments on the Acquired Brands of approximately \$58 million plus interest from 12 June 2015 forward, plus future annual payments of approximately \$13 million, and Philip Morris sought additional amounts related to a portion of the payment calculation affecting Philip Morris. In the settlement, ITG paid \$28 million (£22 million) with respect to the claims from 12 June 2015 forward, and Reynolds paid \$52 million. ITG will pay an estimated \$13 million on 31 December 2021 and each year thereafter.

TEXAS

On 28 January 2019 Texas and Philip Morris filed motions with the Texas court with jurisdiction over the settlement claiming that Reynolds and/or ITGB must make payments with respect to the Acquired Brands under the Texas settlement. Texas and Philip Morris alleged that ITGB was a "successor" or "assign" to Reynolds' obligations under the settlement. On 25 February 2020 the court determined that Reynolds was liable for settlement payments on the Acquired Brands. The court held that ITGB was as "assign" under the settlement but was not directly liable for settlement payments as a successor or assign, and referred further questions regarding ITGB's liability to Reynolds or Texas to the Delaware litigation described below.

On 5 May 2020, the court entered a judgment. The judgment further held that Reynolds' settlement payments on the Acquired Brands would be reduced by an offset for statutory fees under TEX. HEALTH & SAFETY CODE § 161.601, et seq. paid by or for ITGB. The statutory fee had been collected from ITGB's distributors since June 2015 when ITGB acquired the Brands, with ITGB reimbursing distributors for most of the fees paid. Effective 1 April 2019, Texas increased the fee amount from the lower rate paid for brands sold by Subsequent Participating Manufacturers to the MSA to the higher rate paid on other brands. Texas further demanded payment of the fee at the higher rate for the period between June 2015 and April 2019 plus penalties and interest, in the total amount of \$173 million.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

Both Texas and ITGB asked the court to remove the portion of its judgment reducing Reynolds' settlement payments by the statutory payments. The court denied those motions on 14 August 2020. The court further held that the judgment regarding Reynolds was final and appealable, but that the holding regarding ITGB's liability was not yet final until further actions from the Delaware and/or Texas courts. Reynolds appealed the judgment against it. ITGB and Texas both also appealed, noting disagreement with the offset for statutory fees. On 5 October 2020, Reynolds moved to dismiss ITGB's appeal (but not Texas) on the basis that the judgment is not final as to ITGB and does not injure it. ITGB opposed the motion on 15 October 2020. On 22 December 2020, the Court ordered the motion "carried with the case" to be decided along with the merits. Initial briefs on the merits were filed on 2 November 2020.

The Texas case was resolved in May 2021 and the state and Philip Morris' claims have been dismissed, while a separate claim brought by ITGB regarding the equity tax rate is awaiting dismissal. Texas sought settlement payments on the Acquired Brands from and after 12 June 2015 of approximately \$167 million plus interest, plus future annual payments based on market share of approximately \$36 million, and alternatively sought approximately \$173 million (including penalties and interest) in statutory fees. In the settlement, ITG paid \$13.5m in settlement payments (net of amounts accrued and statutory fees already paid) for 12 June 2015 and thereafter and Reynolds paid \$190m, and ITG will pay about \$3m in addition to amounts already accrued on 31 December 2021 and each year thereafter.

DELAWARE

ITGB and Reynolds are also engaged in litigation in the Delaware court with respect to whether ITGB has satisfied its obligations to use "reasonable best efforts" to join the settlements with Florida, Minnesota and Texas under the APA through which ITGB purchased the Acquired Brands and whether ITGB is required to indemnify Reynolds for amounts other courts may require Reynolds to pay. On 30 November 2017, on cross-motions by Reynolds and ITGB, the Delaware court held that the "reasonable best efforts" provision did not automatically terminate due to the transaction closing, but determined further that the duty of reasonable best efforts was not perpetual and that whether ITGB complied with that obligation is a question of fact that the court has not decided. On 23 September 2019, the Delaware court denied a motion by Reynolds to hold ITGB liable under other indemnity provisions of the APA for Reynolds' liability under the Florida decision irrespective of whether ITGB breached a duty of reasonable best efforts, finding a fact question on that argument, and granted Reynolds' motion that one of the conditions to reaching agreement on joinder related to equity taxes did not apply in Florida. On 31 October 2019, the trial court denied ITGB's motion for immediate appeal, with the Delaware Supreme Court denying the same motion on 7 November 2019. At present the parties are engaged in discovery. On 1 October 2021, Reynolds filed a motion to set a case schedule. On 15 October 2021, ITGB opposed the motion and proposed an alternative schedule. No schedule has yet been entered.

Reynolds originally sought indemnification for all amounts it might be required to pay in settlement for the Acquired Brands in the Florida, Minnesota, and Texas litigations, described above. The portions of the Delaware dispute that related to Minnesota and Texas have been settled and dismissed, however, so Reynolds' claim for indemnification in Delaware is now limited to the amounts it has been required to pay under the Florida determination described above, plus interest and attorney's fees. ITGB denies that indemnity is appropriate, and further contends that if Reynolds were to be granted indemnity, any amounts due to it should be substantially reduced by the amount by which Reynolds' settlement payments have been reduced through operation of the "profit adjustment" by reason of ITG not becoming a party to the Florida settlement.

MISSISSIPPI

Effective 12 June 2015, ITGB joined the Mississippi settlement with respect to the Acquired Brands. On 18 June 2015, the Mississippi court administering the settlement approved the joinder. On 2 July 2015, Philip Morris filed a motion to vacate the joinder, but the trial court denied that motion on 4 December 2015. Philip Morris appealed, but then dismissed its appeal under a settlement with Mississippi on 2 June 2017. On 26 December 2018, Philip Morris filed a new motion in Mississippi, challenging the basis on which Reynolds and ITGB had allocated the "base year" profit for the Acquired Brands between them on the basis that it adversely affects Philip Morris. The base year affects a calculation for a downward "profit adjustment" to payments under the Mississippi (and other) State Settlements. Philip Morris claims that adjustment of the base year should lower its payments under the profit adjustment and increase Reynolds' payments. A trial was set for 3-6 May 2021. ITGB is indemnified by Reynolds for profit adjustment payments to the extent that its annual profits do not exceed a specified amount. In June 2021, the parties resolved the Mississippi litigation with an agreement to set the base year amount at \$860 million (plus inflation), and the Court dismissed Philip Morris' motion on 11 June 2021. ITG also received agreed-upon attorney's fees from Reynolds as part of the settlement.

MSA PREVIOUSLY SETTLED STATES REDUCTION

The MSA contains a downward adjustment, called the Previously Settled States Reduction, which reduces aggregate payments made by Philip Morris, Reynolds, and ITGB by a specified percentage each year. The State of California, later joined by the remainder of the MSA states and by Philip Morris, challenged the application of that Reduction to ITGB for every year from 2016 forward, claiming that it cannot apply to ITGB since it is not making settlement payments to Florida, Minnesota, or Texas under their settlements. The Independent Auditor to the MSA, which initially addresses disputes related to payments, has rejected that challenge every year. It is possible that one of the parties making the challenge may seek to arbitrate the claim under the MSA. The PSS Reduction provides annual MSA payment reductions of about \$65 million.

The parties have resolved Philip Morris' related claim under the MSA, challenging ITG's right to receive a "Previously Settled States Reduction" worth about \$65 million a year, as such claim relates to Minnesota and Texas.

OVERALL SUMMARY OF LIABILITY POSITION ASSOCIATED WITH USA STATE SETTLEMENT AGREEMENTS

The Group's legal advice is that it has a strong position on pending claims related to the Acquired Brands and the Group therefore considers that no provision is required for these matters.

PRODUCT LIABILITY INVESTIGATIONS

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. This assessment of the probability of economic outflows at the year-end is a judgement which has been taken by management. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements. Details of these cases are given below.

ARGENTINA

Our subsidiary, Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA), has been notified of a claim filed in the Court of Buenos Aires against Nobleza Piccardo, a subsidiary of British American Tobacco (BAT) by an individual smoker. SEITA is not a party to the court claim. BAT has denied liability. Historically, BAT manufactured and distributed two brands of cigarettes owned by SEITA in Argentina under the terms of a Licence Agreement. BAT has sought to invoke an indemnity contained in the Licence Agreement, pursuant to which SEITA is responsible for any product liability to third parties. The amount claimed is AR\$8,980,200.

An adverse first instance judgment was received in December 2020. Both parties appealed the first instance judgment and the Court of Appeal decision is currently pending.

FRANCE

On 16 January 2018, the French National Committee against Tobacco (the CNCT) filed a criminal complaint against the four main tobacco manufacturers, including a French subsidiary of the Company named Imperial Brand Finance France (the Subsidiary), on grounds of 'reckless life endangerment'. Neither the Subsidiary nor any of its employees or managers have been charged or placed under formal investigation in any ongoing proceedings, as a result of such a complaint. The Group strongly denies the allegations made by the CNCT and is monitoring developments.

UNITED STATES

ITG Brands

A number of smoking and health-related claims have been brought against ITGB in the state courts of Massachusetts. ITGB has the benefit of an indemnity from another manufacturer in respect of each of these claims. As a result, ITGB either has been dismissed, or is expected to be dismissed, without prejudice from each of the claims. To date, no action has been successful or settled in favour of any individual claimant in any tobacco-related litigation against the Company or any of its subsidiaries.

Fontem US

Fontem US is named as a defendant in a case filed in the Superior Court of the State of California for the County of Los Angeles, Central District. The original and amended complaints in this case name 17 defendants, in addition to Fontem US. The claimants seek recovery of money damages, including punitive damages, against all defendants based on the claim that the principal claimant developed a lung condition as a result of her use of e-cigarette and other vaping devices, including those manufactured by Fontem US. The original complaint asserted claims against all defendants styled as eight causes of action as follows: (1) negligence; (2) strict liability—failure to warn; (3) strict liability—design defect; (4) fraudulent concealment; (5) intentional misrepresentation; (6) negligent misrepresentation; (7) breach of implied warranties; and (8) loss of consortium (asserted on behalf of the claimants spouse).

Fontem US has agreed to provide representation and indemnity to defendant Costco Wholesale Corporation ("Costco"), the retailer from which the claimant allegedly purchased blu products. Costco has also filed an answer to the second amended complaint. The Court set a trial date of 1 November 2021.

A mediation took place on 7 December, 2020 but did not resolve the matter. Since the mediation, Fontem US and other defendants continued to conduct fact discovery in anticipation of trial, while also continuing to negotiate with the claimants to resolve the matter prior to trial. In August, these continued negotiations resulted in an agreement by Fontem US and the claimants to settle this matter (which will include dismissal of the claims against Costco). The terms of the settlement agreement will be confidential. At a status conference before the Court on 15 October 2021 the claimants informed the Court that all remaining defendants have settled and later that day filed a conditional Notice of Settlement of Entire Case contingent upon the final execution of the pending settlement documents.

COMPETITION AUTHORITY INVESTIGATIONS

BELGIUM

On 29 May 2017, the National Competition Authority in Belgium (the BCA) conducted raids at the premises of several manufacturers and wholesalers of tobacco products. On 1 October 2021 the BCA announced that it had issued a Proposal for Decision which alleges the existence of anticompetitive practices in the tobacco industry that lasted for several years and consisted in repeated indirect exchanges of information on manufacturers' prices through wholesalers. The BCA states that such conduct may be contrary to Article IV.1 CEL and Article 101 TFEU. This case will now be examined by the Competition College, before which the parties will have the opportunity to defend themselves against these allegations. The parties will be able to submit written comments to the Competition College and will be heard at a hearing. The Competition College will either state that there exists an infringement of competition or make a finding of no infringement.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

SPAIN

On 12 April 2019 the Spanish National Commission on Markets and Competition (CNMC) announced penalties against Philip Morris Spain, Altadis, JT International Iberia and Logista. Altadis and Logista received fines of €11.4 million and €20.9 million, respectively, from the CNMC. According to the decision, Altadis and Logista are alleged to have infringed competition law by participating in an exchange of sales volume data between 2008 and February 2017. CNMC considers that this conduct had the effect of restricting competition in the Spanish tobacco market. Both companies believe that the arguments made by CNMC that define this conduct as anti-competitive are flawed. In June 2019, both Altadis and Logista commenced appeals to the CNMC's Decision and the fines imposed in the Spanish High Court where they believe they will be successful, a decision supported by external legal counsel. In September 2019 Altadis and, separately, Logista arranged bank guarantees for the full amount of the fines with the result that payment of the fines had been suspended pending the outcome of the appeals. Therefore, provision for these amounts is not considered appropriate. In the Altadis appeal, both parties have concluded their submissions to the Court and a judgment is awaited. A judgment is unlikely to be received before the end of 2021.

In the Logista appeal, Logista submitted their pleadings before the High Spanish Court in February 2021. A judgment is also unlikely to be received before the end of 2021.

OTHER LITIGATION

US HELMS-BURTON LITIGATION

Imperial has been named as a defendant in a civil action in federal court in Miami, Florida under Title III of the Cuban Liberty and Democratic Solidarity Act of 1996 ("Helms-Burton") filed on 6 August 2020. Title III provides US nationals with a cause of action and a claim for treble damages against persons who have "trafficked" in property expropriated by the Cuban government. Title III is largely untested because it did not come into effect until May 2019. Treble damages are automatically available under Helms Burton. Although the filed claim is for unquantified damages, we understand the claim could potentially reach approximately \$365 million, based on the claimants' claim to own 90% of the property, which they value at \$135 million (and then treble). The claim is based on allegations that Imperial, through Corporación Habanos S.A. (a joint venture between one of Imperial's now former subsidiaries and the Cuban government), has "trafficked" in a factory in Havana, Cuba that the Cuban government confiscated from the claimants' ancestor in the early 1960s, by using the factory to manufacture, market, sell, and distribute Habanos cigars.

At the time the claim was filed against Imperial and up until the conclusion of the Brexit "transition period" on 31 December 2020, Imperial was subject to an EU law known as the EU Blocking Statute (Regulation (EC) No. 2271/96), which conflicts with Helms-Burton, protected Imperial against the impact of Title III, and impacted how Imperial might respond to the threatened litigation. On 23 September 2020 the US court granted Imperial's motion for a stay of the action until 9 February 2021 or until further order of the court, while Imperial awaited the European Commission's response to its request for authorisation to defend the action or, at a minimum, to file and litigate a motion to dismiss the action.

On 31 December 2020, the Brexit "transition period" concluded without action from the European Commission on Imperial's request for authorization. As of 1 January 2021, the EU Blocking Statute has been transposed into domestic law with only minimal changes. Accordingly, on 10 January 2021, Imperial submitted an application to the UK Department for International Trade for authorisation from the Secretary of State for International Trade to defend the action or, at a minimum, to file and litigate a motion to dismiss the action. On 8 February 2021, the UK Secretary of State for International Trade authorized Imperial to file and litigate a motion to dismiss the action.

On 26 February 2021, Imperial filed a motion to dismiss the action. In response, on 22 March 2021 the claimants amended their claim. On 28 April 2021, Imperial filed a motion to dismiss the amended action. Briefing on the motion to dismiss was completed on 20 July 2021. In August 2021, the parties filed supplemental briefs addressing the impact of a decision in another Helms-Burton case. A hearing on the motion to dismiss is scheduled for 15 December 2021.

Separately, two other groups of prospective claimants have indicated that they intend to file a lawsuit against Imperial in federal court in Miami, Florida. Neither claim has been filed. The threatened claims relate to other properties in Cuba, which the prospective claimants claim were confiscated from their ancestors by the Cuban government in the 1960s and which they claim are now used by Corporación Habanos S.A for commercial activities. The prospective claimants claim to be entitled to treble damages from Imperial.

No provision has been made for potential liabilities related to Helms-Burton claims.

UK

In June 2020, the Group responded to a claimant law firm's allegations of human rights issues in the Malawian tobacco supply chain, which included allegations relating to child and forced labour. In December 2020, a claim was filed in the UK High Court against Imperial Brands plc, Imperial Tobacco Limited and four of its subsidiaries (the Imperial Defendants) and two entities in the BAT group by a group of tobacco farm workers. The Imperial Defendants have acknowledged service and confirmed to the claimants that they intend to defend the claim in full. The Imperial Defendants have not yet been required to file their Defence. A procedural hearing has been scheduled for November/December 2021. The claim is unquantified, and given the early stage of the litigation a provision would not be appropriate.

MOROCCO

A number of cases have been raised against Société Marocaine des Tabacs SA (SMT) disputing a reduction to retirees' pensions. These cases have been in the courts for several years and SMT has successfully defended many of them in the lower courts. During the year 36 cases have been reviewed by the Cour de Cassation (Supreme Court) in Morocco, and it is understood that they have been decided against SMT and in favour of retirees.

The written reasoned judgment of the Cour de Cassation has not been received by SMT at the time of signing these accounts. Furthermore, the judgments in favour of the retirees reportedly relate to unquantified claims. Because of this, it is not possible to assess the impact of the decided cases on the remaining cases within the Moroccan courts. SMT continues to rigorously defend its position.

The Company has reassessed its previously disclosed estimate of exposure to the potential liability following improved clarity of the legal position. Considering the number of cases currently filed by retirees, and allowing for the uncertainty in the calculation of the amount of any future payment, it now considers any outflow, if required, to be significantly lower than that previously disclosed.

31. NET DEBT

The movements in cash and cash equivalents, borrowings, and derivative financial instruments in the year were as follows:

£ million	Current borrowings	Lease liabilities	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2020	(1,442)	(299)	(10,210)	(816)	(12,767)	1,626	(11,141)
Reallocation of current borrowings from non-current borrowings	(1,055)	–	1,055	–	–	–	–
Cash flow	1,294	69	72	(41)	1,394	(330)	1,064
Accretion of interest	13	(7)	1	1	8	–	8
Change in fair values	–	–	–	51	51	–	51
New leases, terminations & modifications	–	(26)	–	–	(26)	–	(26)
Exchange movements	83	12	367	218	680	(9)	671
At 30 September 2021	(1,107)	(251)	(8,715)	(587)	(10,660)	1,287	(9,373)

£ million	Current borrowings	Lease liabilities	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2019	(1,937)	(326)	(11,697)	(622)	(14,582)	2,286	(12,296)
Reallocation of current borrowings from non-current borrowings	(1,340)	–	1,340	–	–	–	–
Cash flow	1,857	72	(1)	23	1,951	(611)	1,340
Accretion of interest	32	(7)	–	(28)	(3)	–	(3)
Change in fair values	–	–	–	80	80	–	80
New leases, terminations & modifications	–	(32)	–	–	(32)	–	(32)
Exchange movements	(54)	(6)	148	(269)	(181)	13	(168)
Transferred to held for disposal (note 11)	–	–	–	–	–	(62)	(62)
At 30 September 2020	(1,442)	(299)	(10,210)	(816)	(12,767)	1,626	(11,141)

ANALYSIS BY DENOMINATION CURRENCY

£ million	GBP	EUR	USD	Other	2021 Total
Cash and cash equivalents	190	188	505	404	1,287
Total borrowings	(2,696)	(3,179)	(3,917)	(30)	(9,822)
	(2,506)	(2,991)	(3,412)	374	(8,535)
Effect of cross currency swaps	2,580	(4,147)	1,305	–	(262)
	74	(7,138)	(2,107)	374	(8,797)
Lease liabilities	(37)	(153)	(23)	(38)	(251)
Derivative financial instruments	–	–	–	–	(325)
Net debt	–	–	–	–	(9,373)

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Average reported net debt during the year was £11,148 million (2020: £13,564 million).

£ million					2020
	GBP	EUR	USD	Other	Total
Cash and cash equivalents	412	556	407	251	1,626
Total borrowings	(2,694)	(3,852)	(5,083)	(23)	(11,652)
	(2,282)	(3,296)	(4,676)	228	(10,026)
Effect of cross currency swaps	2,666	(4,515)	1,368	-	(481)
	384	(7,811)	(3,308)	228	(10,507)
Lease liabilities	(39)	(190)	(27)	(43)	(299)
Derivative financial instruments					(335)
Net debt					(11,141)

ADJUSTED NET DEBT

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, the fair value of derivative financial instruments providing commercial cash flow hedges and lease liabilities.

£ million	2021	2020
Reported net debt	(9,373)	(11,141)
Accrued interest	140	156
Lease liabilities	251	299
Fair value of interest rate derivatives	367	387
Adjusted net debt	(8,615)	(10,299)

Average adjusted net debt during the year was £10,361 million (2020: £12,765 million).

32. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2021	2020
Decrease in cash and cash equivalents	(330)	(611)
Cash flows relating to derivative financial instruments	(41)	23
Repayment of lease liabilities	69	72
Increase in borrowings	(858)	(1,240)
Repayment of borrowings	2,224	3,096
Change in net debt resulting from cash flows	1,064	1,340
Other non-cash movements including revaluation of derivative financial instruments	59	77
Transferred to held for disposal (note 11)	-	(62)
Lease liabilities	(26)	(358)
Exchange movements	671	(168)
Movement in net debt during the year	1,768	829
Opening net debt	(11,141)	(11,970)
Closing net debt	(9,373)	(11,141)

The increase in borrowings and repayment of borrowings reflect the cash flow movements relating to borrowings outstanding at the start and at the end of each financial year; cash flows relating to short term borrowings drawn down and repaid within the year are not included in this analysis.

33. NON-CONTROLLING INTERESTS

MATERIAL NON-CONTROLLING INTERESTS

Detailed below is the summarised financial information of Logista, being a subsidiary where the non-controlling interest of 49.99 per cent is considered material to the Group.

SUMMARISED BALANCE SHEET

at 30 September

Euro million	2021	2020
Current assets	5,958	6,106
Current liabilities	(6,687)	(6,909)
Current net assets	(729)	(803)
Non-current assets	1,630	1,740
Non-current liabilities	(376)	(421)
Non-current net assets	1,254	1,319
Net assets	525	516

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September

Euro million	2021	2020
Revenue	10,817	10,559
Profit for the year	174	157
Other comprehensive income	–	1
Total comprehensive income	174	158

SUMMARISED CASH FLOW STATEMENT
for the year ended 30 September

Euro million	2021	2020
Cash flows from operating activities	(302)	830
Cash flows from investing activities	505	(640)
Cash flows from financing activities	(194)	(188)
Net increase in cash and cash equivalents	9	2

34. POST BALANCE SHEET EVENTS

SALE OF THE PREMIUM CIGAR DIVISION

On 26 October 2021 deferred consideration of €88 million was received in relation to the sale of the Premium Cigar Division.

35. RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the full registered address and the effective percentage of equity owned by the Imperial Brands PLC, as at 30 September 2021, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

IMPERIAL BRANDS PLC BALANCE SHEET

at 30 September

£ million	Notes	2021	2020
Fixed assets			
Investments	iii	7,968	7,968
Current Assets			
Debtors	iv	3,056	4,364
Creditors: amounts falling due within one year	v	(37)	(44)
Net current assets		3,019	4,320
Net assets		10,987	12,288
Capital and reserves			
Called up share capital	vi	103	103
Capital redemption reserve		4	4
Share premium account		5,833	5,833
Profit and loss account – brought forward		6,348	8,158
Profit and loss account – profit for the year		4	35
Profit and loss account – other movements for year		(1,305)	(1,845)
Total shareholders' funds		10,987	12,288

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented.

The financial statements on pages 220 to 234 were approved by the Board of Directors on 15 November 2021 and signed on its behalf by:



THÉRÈSE ESPERDY
CHAIRMAN



LUKAS PARAVICINI
DIRECTOR

IMPERIAL BRANDS PLC STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2021

£ million	Share capital	Share premium and capital redemption	Retained Earnings	Total Equity
At 1 October 2020	103	5,837	6,348	12,288
Profit for the year	–	–	4	4
Total comprehensive income	–	–	4	4
Transactions with owners				
Repurchase of shares	–	–	–	–
Dividends paid	–	–	(1,305)	(1,305)
At 30 September 2021	103	5,837	5,047	10,987
At 1 October 2019	103	5,837	8,158	14,098
Profit for the year	–	–	35	35
Total comprehensive income	–	–	35	35
Transactions with owners				
Repurchase of shares	–	–	(92)	(92)
Dividends paid	–	–	(1,753)	(1,753)
At 30 September 2020	103	5,837	6,348	12,288

Total distributable reserves were £5,033 million (2020 £6,339 million).

NOTES TO THE FINANCIAL STATEMENTS OF IMPERIAL BRANDS PLC

I. ACCOUNTING POLICIES

BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE WITH FRS 101

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed in note 2 of the Group financial statements for the year ended 30 September 2021.

Imperial Brands PLC (the Company) is the ultimate parent company within the Imperial Brands group (the Group). The Company is a public company limited by shares, incorporated in the England and Wales and its principal activity continued to be that of holding investments. The Company's registered number is 3236483 and its registered address is 121 Winterstoke Road, Bristol, BS3 2LL. The Company does not have any employees. The Directors of the Group manage the Group's risks at a Group level, rather than at an individual entity level. These risks are detailed in note 2 of the Group's Annual Report (see pages 174-175).

These financial statements were prepared in accordance with the Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and applicable accounting standards.

The financial statements have been prepared on the historical cost basis, and as a going concern. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

As permitted by section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available in the preparation of the financial statements, as detailed below:

- Paragraph 38 of IAS 1 'Presentation of financial statements' – comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
- The following paragraphs of IAS 1 'Presentation of financial statements':
 - (i) 10(d) statement of cash flows;
 - (ii) 10(f) – a statement of financial position as at the beginning of the preceding period when an entity applied an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
 - (iii) 16 – statement of compliance with all IFRS;
 - (iv) 38A – requirement for minimum of two primary statements, including cash flow statements;
 - (v) 38B-D – additional comparative information;
 - (vi) 40A-D – requirements for a third statement of financial position;
 - (vii) 111 – cash flow information; and
 - (viii) 134-136 – capital management disclosures;
- IAS 7 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting Policies, changes in accounting estimates and errors' – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;
- Paragraph 17 of IAS 24 'Related party disclosures' – key management compensation;
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payments;
- IFRS 7 'Financial Instruments: Disclosures'; and
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities.

The principal accounting policies, which have been applied consistently are set out below. The Directors do not consider there to be any critical accounting estimates or judgements in respect of the Company, see note 2 Critical Accounting Estimates and Judgements of the consolidated financial statements for further detail.

INVESTMENTS

Investments held as fixed assets comprise the Company's investment in subsidiaries and are shown at historic purchase cost less any provision for impairment. An annual review of investments is performed for indicators of impairment. If indicators of impairment are identified investments are tested for impairment to ensure that the carrying value of the investment is supported by their recoverable amount.

DIVIDENDS

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid. Dividends receivable are recognised as an asset when they are approved.

NOTES TO THE FINANCIAL STATEMENTS OF IMPERIAL BRANDS PLC - CONTINUED

FINANCIAL INSTRUMENTS

Receivables held under a hold to collect business model are stated at amortised cost.

The calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short term highly liquid investments.

TREASURY SHARES

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases shareholders' funds. When such shares are cancelled they are transferred to the capital redemption reserve.

INCOME TAXES

Judgement is involved in determining whether the Company is subject to a tax liability or not in line with tax law. Where liabilities exist, estimation is often required to determine the potential future tax payments. The Company recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

II. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	2021	2020	2019
Paid interim of 42.12 pence per share (2020: 41.70 pence, 2019: 62.56 pence)			
- Paid June 2019	-	-	298
- Paid September 2019	-	-	298
- Paid December 2019	-	-	679
- Paid June 2020	-	197	-
- Paid September 2020	-	197	-
- Paid December 2020	-	453	-
- Paid June 2021	199	-	-
- Paid September 2021	199	-	-
Interim dividend paid	398	847	1,275
Proposed interim of 48.48 pence per share (2020: 48.00 pence, 2019: 72.00 pence)			
- To be paid December 2021	458	-	-
Interim dividend proposed	458	-	-
Proposed final of 48.48 pence per share (2020: 48.01 pence, 2019: 72.01 pence)			
- Paid March 2020	-	-	680
- Paid March 2021	-	454	-
- To be paid March 2022	458	-	-
Final dividend	458	454	680
Total ordinary share dividends of 139.08 pence per share (2020: 137.71 pence, 2019: 206.57 pence)	1,314	1,301	1,955

The third interim dividend for the year ended 30 September 2021 of 48.48 pence per share amounts to a proposed dividend of £458 million, which will be paid in December 2021.

The proposed final dividend for the year ended 30 September 2021 of 48.48 pence per share amounts to a proposed dividend payment of £458 million in March 2022 based on the number of shares ranking for dividend at 30 September 2021, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2021 will be £1,314 million (2020: £1,301 million). The dividend paid during 2021 is £1,305 million (2020: £1,753 million).

III. INVESTMENTS

COST OF SHARES IN IMPERIAL TOBACCO HOLDINGS (2007) LIMITED

£ million	2021	2020
At 1 October	7,968	7,968
At 30 September	7,968	7,968

The Directors confirm that the carrying value of the investments is supported by their underlying net assets.

A list of the subsidiaries of the Company is shown on pages 225-234.

IV. DEBTORS

£ million	2021	2020
Amounts owed from Group undertakings	3,056	4,364

Amounts owed from Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

V. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

£ million	2021	2020
Amounts owed by Group undertakings	35	35
Cash at bank and in hand	2	2
Other creditors	—	7
	37	44

Amounts owed by Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

VI. CALLED UP SHARE CAPITAL

£ million	2021	2020
Authorised, issued and fully paid		
1,020,697,238 ordinary shares of 10p each (2020: 1,020,697,238)	103	103

During the year nil shares (2020: 5,098,508 shares) were repurchased and immediately cancelled, increasing the Capital Redemption reserve.

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve, and between September 2017 and December 2017, 4,973,916 shares were cancelled increasing this reserve.

VII. RESERVES

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £4 million (2020: £35 million).

TREASURY SHARES

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 percent of issued share capital. During the year the Group purchased nil shares at a cost of £nil million (2020: 5,098,508 shares at a cost of £92 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

£ million unless otherwise indicated	2021		2020	
	Millions of shares (number)	Value	Millions of shares (number)	Value
At 1 October	74.3	2,183	74.3	2,183
Purchase of shares	—	—	5.1	92
Cancellation of shares	—	—	(5.1)	(92)
Gifted to Employee Share Ownership Trusts	—	—	—	—
At 30 September	74.3	2,183	74.3	2,183
Percentage of issued share capital	7.3	n/a	7.3	n/a

NOTES TO THE FINANCIAL STATEMENTS OF IMPERIAL BRANDS PLC – CONTINUED

VIII. GUARANTEES

The Company provides guarantees to the following subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2021:

- Imperial Tobacco Holdings (2007) Limited
- Sinclair Collis Limited
- Imperial Tobacco Ventures Limited
- Rizla UK Limited
- Imperial Tobacco Overseas (Polska) Limited
- La Flor de Copan UK Limited
- Tabacalera de Garcia UK Limited
- Imperial Brands Ventures Limited
- Nerudia Consulting Limited
- Nerudia Compliance Limited

The Company has guaranteed various committed and uncommitted borrowings facilities and liabilities of certain UK and overseas undertakings, including Dutch and Irish subsidiaries. As at 30 September 2021, the amount guaranteed is £14,708 million (2020: £18,620 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2021 and which, in accordance with Book 2, Article 403 of The Netherlands Civil Code, do not file separate financial statements with the Chamber of Commerce. Under the same article, the Company has issued declarations to assume any and all liabilities for any and all debts of the Dutch subsidiaries.

Many of the committed revolving credit facilities remain undrawn as at 30 September 2021 but the maximum potential exposure under each facility has been included due to the ongoing commitment, only drawn utilised balances have been included for facilities that are uncommitted in nature.

The guarantees also cover the Irish subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2021. The Irish companies, namely John Player & Sons Limited, have therefore availed themselves of the exemption provided by section 17 of the Irish Companies (Amendment) Act 1986 in respect of documents required to be attached to the annual returns for such companies.

The Company has also provided a parent guarantee to the Imperial Tobacco Pension Trustees Ltd, the main UK pension scheme.

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised on the balance sheet.

IX. RELATED PARTY DISCLOSURES

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report. The Directors Remuneration Report, on pages 129-139 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the country of incorporation and the effective percentage of equity owned, as at 30 September 2021 are disclosed below. With the exception of Imperial Tobacco Holdings (2007) Limited, which is wholly owned by the Company, none of the shares in the subsidiaries is held directly by the Company.

SUBSIDIARIES: REGISTERED IN ENGLAND AND WALES, WHOLLY OWNED

Name	Principal activity and registered address
Altadis Newco Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Attendfriend Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
British Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Congar International UK Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Hypofill Limited	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Imperial Brands Enterprise Finance Limited	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Finance PLC	Provision of treasury services to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Finance Limited ^(a)	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Holdings (1) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Holdings (2) Limited ^(a)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Brands Ventures Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Investments Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Altadis Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (1)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (2)	Provision of finance to other Group companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (3)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Capital Assets (4)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Group Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (1) Limited ^(a)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings (2007) Limited ^(a)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Initiatives	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Lacroix Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Limited	Marketing and sale of tobacco products in the UK 121 Winterstoke Road, Bristol BS3 2LL, England
Imperial Tobacco Overseas (Polska) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (1) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (2) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (3) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings (4) Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Holdings Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Overseas Limited ^(a)	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Pension Trustees (Burlington House) Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England

RELATED UNDERTAKINGS - CONTINUED

Name	Principal activity and registered address
Imperial Tobacco Pension Trustees Limited ^(a)	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Imperial Tobacco Ventures Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
ITG Brands Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Joseph & Henry Wilson Limited	Licensing rights for the manufacture and sale of tobacco products 121 Winterstoke Road, Bristol, BS3 2LL, England
La Flor de Copan UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England
Nerudia Limited ^(a)	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Trading Limited	In Liquidation The offices of BDO LLP, Two Snowhill Birmingham, B4 6GA, England
Nerudia Consulting Limited	Research and development of e-vapour products Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Nerudia Compliance Limited	In Liquidation The offices of BDO LLP, 5 Temple Square, Temple Street, Liverpool, L2 5RH, England
Park Lane Tobacco Company Limited	Dormant 121 Winterstoke Road, Bristol, BS3 2LL, England
Rizla UK Limited	Entity ceased trading 121 Winterstoke Road, Bristol, BS3 2LL, England
Sensus Investments Limited	Dormant Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England
Sinclair Collis Limited ^(a)	In Liquidation The offices of BDO LLP, Two Snowhill Birmingham, B4 6GA, England
Tabacalera de Garcia UK Limited	Holding investments in subsidiary companies 121 Winterstoke Road, Bristol, BS3 2LL, England

SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED

Name	Country of incorporation	Principal activity and registered address
I213509 B.C. Limited ^(a)	Canada	Holding investments in subsidiary companies Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC, V6C 2X8, Canada
Altadis Canarias S.A.U. ^(a)	Spain	Marketing and sale of tobacco products in the Canary Islands C/Comandante Azcarraga 5, Madrid, 28016, Spain
Altadis Holdings USA Inc	United States of America	Holding investments in subsidiary companies 714 Green Valley Road Greensboro, NC27408 USA
Altadis Management Services Corporation	United States of America	Trademark service company 714 Green Valley Road Greensboro, NC27408 USA
Altadis Middle East FZCO	United Arab Emirates	Sales and marketing of tobacco products in the Middle East P.O. Box. No. 261718, Jebel Ali Free Zone, Dubai, 261718, United Arab Emirates
Altadis Ocean Indien S.A.S.	France (La Reunion Island)	Sales and distribution of tobacco products in La Reunion Island ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Reunion
Altadis Retail Corporation	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1230, Wilmington, DE, 19801, USA
Altadis S.A.U.	Spain	Manufacture, sales and distribution of tobacco products in Spain C/Comandante Azcarraga 5, Madrid 28016, Spain
Altadis Shade Company LLC	United States of America	Manufacture and sale of tobacco products in the USA 217 Shaker Road, Somers, CT, 06071, USA
Athena IP Vermögensverwaltungs GmbH	Germany	Davidoff cigarette trademark owner Max-Born-Straße 4, Hamburg, 22761, Germany
Cacique, SA – Comércio, Importação e Exportação	Brazil	Dormant Rua Marechal Deodoro, 690 – Centro Arapiraca, Alagoas, Brazil
CBHC Inc	United States of America	Dormant 714 Green Valley Road Greensboro, NC27408 USA
Commonwealth-Altadis, Inc	United States of America	Sales and distribution of tobacco products in the USA 714 Green Valley Road Greensboro, NC27408 USA
Commonwealth Brands Inc	United States of America	Manufacture and sale of tobacco products in the USA 714 Green Valley Road Greensboro, NC27408 USA
Congar International Corp (Delaware)	United States of America	Manufacturing and distribution of mass market cigars Road 14, Km. 72.2, Ave. Antonio R. Barcelo, Cayey, DE, PR 00736, USA
Connecticut Shade Corporation	United States of America	Holding investments in subsidiary companies 714 Green Valley Road Greensboro, NC27408 USA
Consolidated Cigar Holdings Inc ^(a)	United States of America	Holding investments in subsidiary companies 714 Green Valley Road Greensboro, NC27408 USA
Corelma International S.A.S.	France	Holding investments in subsidiary companies 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
Direct Products Inc (Inactive)	United States of America	Holding investments in subsidiary companies 714 Green Valley Road Greensboro, NC27408 USA
Dunkerquoise des Blends S.A.S.	France	Tobacco processing 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
Ets L Lacroix Fils NV/SA	Belgium	Manufacture and sale of tobacco products in Belgium Sint-Bavostraat 66, 2610 Wilrijk, Belgium
Fontem (Beijing) Technology Solutions Limited ^(a)	People's Republic of China	Research and development Room 201, Floor 2, Building 6, Yuan Dong science and technology park, 6 Hepingli North Street, Dong Cheng District, Beijing, 100013, China
Fontem Canada Limited	Canada	Non-trading C/O BDO Canada LLP, Suite 120, 230 Brownlow Avenue, Dartmouth, Nova Scotia B3B 0G5, Canada
Fontem Holdings 1 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 2 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 3 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings 4 B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem Holdings B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Fontem US, LLC	United States of America	Sales and marketing of tobacco products in the US 714 Green Valley Road Greensboro, NC27408 USA
Fontem Ventures B.V.	The Netherlands	Holding investments in subsidiary companies Radarweg 60, Amsterdam, 1043 NT, The Netherlands
Huotraco International Limited	Cambodia	Production and marketing of tobacco products No 299, Preah Ang Duong Street, Sangkat Wat Phnom, Khan Daunh Penh, Phnom Penh, Cambodia
Imperial Brands Colombia S.A.S.	Colombia	In Liquidation TV21 No.98 05, Bogota D.C. Colombia
Imperial Brands Finance France S.A.S.	France	Provision of finance to other Group companies 143 bd Romain Rolland, Cedex 14, Paris, 75685, France
Imperial Brands Finance Netherlands B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands

RELATED UNDERTAKINGS - CONTINUED

Name	Country of Incorporation	Principal activity and registered address
Imperial Brands Finland Oy	Finland	Sales and marketing of tobacco products in Finland Pohjoismäentie 1-3, Piispanristi, 20760, Finland
Imperial Brands Global Duty Free & Export S.L.	Spain	Sale and export of duty-free tobacco products C/Comandante Azcarraga 5, Madrid 28016, Spain
Imperial Brands Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Brands Japan Kabushiki Kaisha ^(M)	Japan	Sales and marketing of tobacco products in Japan The Okura Prestige Tower, 10th Floor, 2-10-4 Toranomon, Minato-ku, Tokyo 105-0001, Japan
Imperial Brands Luxembourg sarl	Luxembourg	Sale of tobacco products in Luxembourg 56 Rue Charles Martel, L-2134, Luxembourg
Imperial Brands Malta Limited	Malta	Provision of finance to other Group companies Aragon House Business Centre, St. George's Park, St. Julians, Malta STJ3140
Imperial Brands Ventures LLC	United States of America	Holding investments in subsidiary companies 251 Little Falls Drive, Wilmington, DE 19808 USA
Imperial Finance Ireland Limited	Ireland	Provision of finance to other Group companies 21 Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Imperial Finance Malta Limited	Malta	Provision of finance to other Group companies Aragon House Business Centre, St. George's Park, St. Julians, Malta STJ3140
Imperial Nominees Limited ^(M)	New Zealand	Trustee Company Level 24, 157 Lambton Quay, Wellington Central, Wellington 6011, New Zealand
Imperial Tobacco (Asia) Pte. Ltd.	Singapore	Trading of tobacco related products 80 Robinson Road, #02-00, 068898, Singapore
Imperial Tobacco Australia Limited	Australia	Sales and marketing of tobacco products in Australia John Player Special House, Level 4, 4-8 Inglewood Place, Norwest, NSW 2153, Australia
Imperial Tobacco Austria Marketing Service GmbH	Austria	Marketing of tobacco products in Austria Zieglergasse 5, A-1070 Vienna, Austria
Imperial Tobacco BH doo ^(M)	Bosnia-Herzegovina	Marketing and distribution of tobacco products in Bosnia Adema Buca, Sarajevo, 71000, Bosnia & Herzegovina
Imperial Tobacco Bulgaria EOOD ^(M)	Bulgaria	Manufacture and sale of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco CR s.r.o.	Czech Republic	Sales and marketing of tobacco products in the Czech Republic Radlicka 14, Prague 5, 150 00, Czech Republic
Imperial Tobacco Distribution EOOD ^(M)	Bulgaria	Marketing and distribution of tobacco products in Bulgaria 15 Henrih Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria
Imperial Tobacco Distribution Romania srl ^(M)	Romania	Marketing and distribution of tobacco products in Romania Nicolae Carnea Street no. 140-160, EOS Business Park, 1st Floor North, 2nd District, Bucharest, Romania
Imperial Tobacco EFKA Management GmbH	Germany	Manufacture of tobacco products in Germany Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco España, S.L.U.	Spain	Holding investments in subsidiary companies C/Comandante Azcarraga 5, Madrid 28016, Spain
Imperial Tobacco Estonia OÜ	Estonia	Dormant Valge 13, 11145 Tallinn, Estonia
Imperial Tobacco Germany Finance GmbH	Germany	Holding investments in subsidiary companies Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Hellas S.A.	Greece	Sales and marketing of tobacco products in Greece 300 Klithenous Str, 15344 Gerakas, Attika, Athens, Greece
Imperial Tobacco Holdings (Netherlands) B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Holdings International B.V.	The Netherlands	Provision of finance to other Group companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Intellectual Property Limited	Ireland	Ownership of trademarks 21 Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Imperial Tobacco International GmbH	Germany	Export and marketing of tobacco products Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Ireland Unlimited Company ^(M)	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Imperial Tobacco Italia S.r.l.	Italy	Sales and marketing of tobacco products in Italy Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Italy S.r.l.	Italy	Holding investments in subsidiary companies Via Luca Passi 22, Roma, 00166, Italy
Imperial Tobacco Kyrgyzstan LLC ^(M)	Kyrgyzstan	Marketing and distribution of tobacco products in Kyrgyzstan 115 Ibraimov Street, 10th Floor, Business Center 'Asyl-Tash', Bishkek, 720021, Kyrgyzstan
Imperial Tobacco Magyarország Dohányforgalmazó Kft (Imperial Tobacco Hungary)	Hungary	Sales and marketing of tobacco products in Hungary Váci út 141, 1138, Budapest, Hungary
Imperial Tobacco Management Luxembourg sarl	Luxembourg	Holding investments in subsidiary companies 56 Rue Charles Martel, L-2134, Luxembourg
Imperial Tobacco Marketing Sdn Bhd	Malaysia	Trading of tobacco products 12th Floor Menara Symphony, No 5 Jalan Prof. Khoo Kay Kim, Seksyey, 46200 Petaling Jaya, Selangor, Malaysia
Imperial Tobacco New Zealand Limited	New Zealand	Manufacture and sale of tobacco products in New Zealand Level 24, 157 Lambton Quay, Wellington Central, Wellington 6011, New Zealand

Name	Country of incorporation	Principal activity and registered address
Imperial Tobacco Norway A.S.	Norway	Sales and marketing of tobacco products in Norway Ryensvingen 2-4, 0680, Oslo, Norway
Imperial Tobacco Polska Manufacturing S.A.	Poland	Manufacture of tobacco products in Poland Ul. Tytoniowa 2/6, Radom, 26-500, Poland
Imperial Tobacco Polska S.A.	Poland	Manufacture and sale of tobacco products in Poland Jankowice, ul. Przemysłowa 1, PI-62-080, Tamowo-Podgome, Poland
Imperial Tobacco Portugal SSPLC	Portugal	Advertising and support management 144, 7 DT, Avenida da Liberdade, Lisbon, Portugal
Imperial Tobacco Production Ukraine [®]	Ukraine	Manufacture of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine
Imperial Tobacco Sales & Marketing LLC [®]	Russia	Sales and marketing of tobacco products in Russia Degjarmy pereulok 4-1, 125009 Moskau, Russian Federation
Imperial Tobacco SOG doo Beograd [®]	Serbia	Marketing and distribution of tobacco products in Serbia Milutina Milankovica 11a, Novi Beograd, Serbia
Imperial Tobacco Sigara ve Tutunculuk Sanayi Ve Ticaret A.S.	Turkey	Manufacture of tobacco products in Turkey Kecilikoy OSB, Mah. Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey
Imperial Tobacco Slovakia a.s.	Slovak Republic	Sales and marketing of tobacco products in the Slovak Republic 7A Galvaniho, 824 53 Bratislava, Slovakia
Imperial Tobacco Taiwan Co Limited	Taiwan	Sales and marketing of tobacco products in Taiwan 6F1-2 No.2 Sec. 3, Minsheng E road, Zhongshen District, Taipei, Taiwan, Province of China
Imperial Tobacco Taiwan Manufacturing Company Limited	Taiwan	Manufacture of tobacco products in Taiwan No.8 Cyunyi Road, Jhunan, Miaoli County 350, Taiwan Province of China
Imperial Tobacco Tutun Urunleri Satis Ve Pazarlama A.S.	Turkey	Sales and marketing of tobacco products in Turkey Kecilikoy OSB, Mah. Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey
Imperial Tobacco Ukraine [®]	Ukraine	Sales and marketing of tobacco products in Ukraine ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine
Imperial Tobacco US Holdings BV	The Netherlands	Holding investments in subsidiary companies Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Imperial Tobacco Volga LLC [®]	Russia	Manufacture of tobacco products in Russia ul.Tomskaja 7, 400048 Volgograd, Russian Federation
Imperial Tobacco West Africa S.A.S. [®]	Cote D'Ivoire	Holding investments in subsidiary companies Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan
Imperial Tobacco Zagreb doo [®]	Croatia	Dormant Gradičanska 30, Zagreb, HR-10000, Croatia
Imperial Ventures Malta Limited	Malta	Provision of finance to other Group companies Aragon House Business Centre, St. George's Park, St. Julians, Malta STJ3140
IMPTOB South Africa (Pty) Limited	South Africa	Provision of services to other Group companies Suite 107, Beacon Rock, 21 Lighthouse Road, Umhlanga 4319, South Africa
International Marketing Promotional Services Limited	Nigeria	Sales and marketing and of tobacco products in Nigeria 13 A, Dapo Solanke Close - Lekki Phase 1, Lagos, Nigeria
ITG Brands Holdco LLC	United States of America	Holding investments in subsidiary companies 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Brands, LLC	United States of America	Marketing and distribution of tobacco products in the USA 714, Green Valley Road, Greensboro, NC 27408, USA
ITG Cigars Inc	United States of America	Manufacture and sale of cigars in the USA 2601 Tampa East Blvd, Tampa Florida FL33619-8306, USA
ITG Holdings USA Inc [®]	United States of America	Holding investments in subsidiary companies 714 Green Valley Road Greensboro, NC27408 USA
ITL Pacific (HK) Limited	Hong Kong	Manufacture and sale of tobacco and tobacco related products Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong
JAW-Invest Oy	Finland	Trademark owner Poikkuomantie 1-3, Piispanristi, 20760, Finland
John Player & Sons Limited	Ireland	Sales and marketing of tobacco products in the Republic of Ireland 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
John Player Ireland Pension Trustee Limited	Ireland	Trustee Company 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
JSNM SARL	France	Trademark owner 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
MYBLU Spain S.L.	Spain	Marketing and sale of e-vapour products in Spain CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain
Max Rohr, Inc	United States of America	Trademark owner 300 Delaware Avenue, Ste. 1267, Wilmington, DE, 19801, USA
Meccarillos France, S.A.	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos International, S.A.	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Meccarillos Suisse, S.A.	Luxembourg	Holding investments in subsidiary companies Route Des Trois Cantons 9, 8399 Windhof, Luxembourg
Millennium Tobacco Unlimited Company	Ireland	Provision of finance to other Group companies 21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland
Newglade International Unlimited Company	Ireland	Dormant 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland

RELATED UNDERTAKINGS - CONTINUED

Name	Country of incorporation	Principal activity and registered address
Philippine Bobbin Corporation	Philippines	Manufacture of tobacco related products Cavite Economic Zone, Phase II, Rosario, Cavite, Philippines
Real Club de Golf la Herreria S.A.	Spain	Management of golf course C/R. Robledo de Chavela, S/N, San Lorenzo del Escorial, Madrid, 28200, Spain
Reemtsma Cigarettenfabriken GmbH	Germany	Manufacture and sale of tobacco products in Germany Max-Born-Strasse 4, Hamburg, 22761, Germany
Robert Burton Associates Limited	United States of America	In dissolution 5900 North Andrews Avenue, Ste. 1100, Fort Lauderdale, Florida, FL 33309, USA
Srni Snus AB	Sweden	Manufacture, marketing, sales of tobacco products in Sweden PO Box 3066, Stockholm, SE-103 61, Sweden
Société Centrafricaine de Cigarettes S.A.®	Central African Republic	Manufacture and distribution of cigarettes in Central African Republic Rue David Dacko, BP 1446, Bangui, Central African Republic
Société Centrafricaine de Distribution Sati®	Central African Republic	Dormant Avenue Boganda Pk4, Bangui, Central African Republic
Société du Mont Nimba Sati®	Guinea Conakry	In Liquidation BP 3391, Conakry, Guinea
Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes S.A.S. (SEITA)	France	Manufacture and sale of tobacco products in France, and export of tobacco products 143 bd Romain Rolland, Cedex 14, Paris, 75665, France
Société pour le Développement du Tabac en Afrique France S.A.S.	France	Purchasing company 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
System Designed to Africa Sati	Morocco	Distribution of tobacco products Km 17, Route nationale de Rabat, Ain Harouda, Morocco
Tabacalera Brands Inc	United States of America	Trademark owner 103 Foulk Road, Suite 253, Wilmington, Delaware, 19803, USA
Tabacalera de Garcia Limited	Bermuda	Holding investments in subsidiary companies Claredon House, 2 Church Street, Hamilton, Bermuda
Tabacalera de Garcia S.A.S.	France	Manufacturing and commercial activities related to tobacco 320, Rue Saint-Honoré, Paris, 75001, France
Tabacalera de Garcia S.A.S.	Dominican Republic	Dormant Industrial Free Zone #1, La Romana, Dominican Republic
Tahiti Tabacs SASU	France, Papete (Tahiti)	Importation, distribution and selling of tobacco products in Tahiti (French Polynesia) PK 4, 300 Côte mer, 98701 Arue, BP 20692 Papeete, French Polynesia
Tobacco S.A.S.™	France	Holding investments in subsidiary companies 122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France
Tobacco 3DVA, ugovsko podjetje d.o.o.	Slovenia	Retail of products in Slovenia Cesta 24, junija 90, SI 1231 Ljubljana - Cmure, Slovenia
Tobacna Crost d.o.o.	Slovenia	Marketing and distribution in Slovenia Cesta 24, junija 90, SI 1231 Ljubljana - Cmure, Slovenia
Tobacna Ljubljana d.o.o.	Slovenia	Sales and marketing tobacco products in Slovenia Cesta 24, junija 90, SI 1231 Ljubljana - Cmure, Slovenia
Van Nelle Tabak Nederland B.V.	The Netherlands	Manufacture and sale of tobacco products in the Netherlands Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Van Nelle Tobacco International Holdings B.V.	The Netherlands	Sale of tobacco and tobacco related products Slachtedijk 28a, 8501 ZA, Joure, Netherlands
Von Ertl GmbH®	Austria	Sale of e-vapour products in the US and Europe Hegelgasse 13/26, 1010 Vienna, Austria

SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Be To Be Pharma, S.L.U.	Spain	Distribution of pharmaceuticals Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	50.0
CDIL Companhia de Distribucao Integral Logista Portugal, S.A.	Portugal	Marketing and sale of tobacco and other products, and payment services in Portugal. Edificio Logista, Rua do Vale da Fonte Coberta, 153 E 167, 2890-182 Alcochete, Portugal	50.0
Compagnie Agricole et Industrielle des Tabacs Africains S.A.S.	France	Management company 143 bd Romain Rolland, Cedex 14, Paris, 75685, France	99.9
Compagnie Réunionnaise des Tabacs S.A.S.	France, St Pierre (La Reunion Island)	Manufacture of cigarettes ZI n° 2 – BP 256 – 97457 Saint Pierre Cedex, La Reunion	98.9
Compañía de Distribución Integral de Publicaciones Logista S.L.U. ⁽⁶⁾	Spain	Distribution of published materials and other products Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	50.0
Compañía de Distribución Integral Logista Holdings, S.A. ⁽⁶⁾	Spain	Holding investments in subsidiary companies C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Compañía de Distribución Integral Logista Polska, sp. z o.o. (SL)	Poland	Distribution of tobacco products in Poland Avenida Jerozolimskie 133/131, 02-304 Warsaw, Poland	50.0
Compañía de Distribución Integral Logista S.A.U.	Spain	Distribution of tobacco products in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Cyberpoint, S.L.U.	Spain	Distribution of POS software Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a – Modulo 3, Alcorcor, Madrid, 28922, Spain	50.0
Distribuidora de las Rías S.A.U.	Spain	Distribution of published materials and other products in Spain Avda. Cerezos, Parcela D-28, Polígono Industrial P.O.CO.MA.CO, 15190 Mesoiro, La Coruña, Spain	50.0
Distribuidora del Este S.A.U.	Spain	Distribution of published materials and other products in Spain Felix Rodriguez de la Fuente, 11, Parque Epresarial de Elche, Alicante, Elche, 03203, Spain	50.0
Distribuidora del Noroeste S.L.	Spain	Distribution of published materials and other products in Spain C/ Gandarón, 34, interior, Vigo, Pontevedra, 36214, Spain	50.0
Dronas 2002, S.L.U.	Spain	Industrial parcel and express delivery service Energía, 25-29, Polígono Industrial Nordeste, Sant Andreu de la Barca, Barcelona, 08740, Spain	50.0
Imperial Tobacco TKS a.d. ⁽⁶⁾	Macedonia	Manufacture, marketing and distribution of tobacco products in Macedonia ul 11, Oktomvri 125, P O Box 37, 1000 Skopje, Macedonia	99.1
Imperial Tobacco TKS a.d. – Dege Kosovo	Republic of Kosovo	Manufacture, marketing and distribution of tobacco products in Kosovo Rrafshi i Kosoves, Nr. 80 (Magjistralja M2, Prishtine-Shkup, km i 2-te Vetermik) Prishtine, Republic of Kosovo	99.1
Imprimerie Industrielle Ivoirienne SA ⁽⁶⁾	Cote d'Ivoire	Printing company Zone Industrielle du Banco, Lots No 147-149-150, 01 BP 4124, Yopougon/Abdjan, Cote d'Ivoire	78.7
La Mancha 2000, S.A.U.	Spain	Distribution services Av. de la Vegailla, 12-Nave A- Parcela S-120, Cabanillas del Campo, Guadalajara, 19171, Spain	50.0
Lao Tobacco Limited ⁽⁶⁾	Laos	Manufacture and distribution of cigarettes in Laos KM 8, Thadeua Road, P O Box 181, Vientiane, Lao People's Democratic Republic	53.0
Logesta Deutschland GmbH	Germany	Long haul transportation in Germany Pilotstrasse, 4, 80538 München, Germany	50.0
Logesta France SARL	France	Long haul transportation in France Immeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logesta Gestión de Transporte S.A.U.	Spain	Long haul transportation services in Spain C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Logesta Italia, S.R.L.	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	50.0
Logesta Lusa L.D.A. ⁽⁶⁾	Portugal	Long haul transportation in Portugal Expanso da Area Industrial do Passil, Edificio Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
Logesta Polska Sp Zoo	Poland	Long haul transportation in Poland Aleje Jerozolimskie 133/32, 02/304 Varsovia, Poland	50.0
Logista France Holding S.A.	France	Holding investments in subsidiary companies Immeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista France S.A.S.	France	Holding investments in subsidiary companies Immeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Logista Italia Spa	Italy	Long haul transportation in Italy Via Valadier, 37 – 00193 Roma, Italy	50.0
Logista Payments, S.L.U.	Spain	Provision of financial services C/ Trigo, 39 – Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	50.0
Logista Pharma Canarias, S.A.U.	Spain	Pharmaceutical products logistics in Canary Islands C/ Entreríos Nave 3, Las Palmas de Gran Canaria, 35600, Spain	50.0
Logista Pharma S.A.U.	Spain	Distribution of pharmaceuticals Felix Rodriguez de la Fuente, 11, Parque Epresarial de Elche, Alicante, Elche, 03203, Spain	50.0
Logista Promotion et Transport S.A.S.	France	Marketing and distribution of tobacco products in France Immeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0

RELATED UNDERTAKINGS - CONTINUED

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Logista Regional de Publicaciones, S.A.U.	Spain	Marketing, distribution and sale to points of sale in Spain. Poligono Industrial Polvoranca, Calle Trigo 39, Leganes, Madrid, Spain	50.0
Logista, Transportes, Transitários e Pharma, Lda, Sociedade Unipersonal	Portugal	Industrial parcel delivery and pharmaceutical distribution in Portugal Expansão da Área Industrial do Passil, Edifício Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
Logista-Dis S.A.U.	Spain	Sale of tobacco products in Spain C/ Trigo, 39 - Poligono Industrial Polvoranca, Leganes, Madrid, 28914, Spain	50.0
MABUCIG Industries S.A. ^(a)	Burkina Faso	Manufacture of cigarettes in Burkina Faso No 55, Rue 19.14, B.P. 94, Koden, - Bobo Dioulasso, Burkina Faso	72.7
MABUCIG (Manufacture Burkinabe de Cigarette) S.A. ^(a)	Burkina Faso	Manufacture of cigarettes in Burkina Faso Zone Industrielle de Bobo-Dioulasso, Secteur No 19, Rue 19.14 No adressage 55, B.P. 94 - Bobo Dioulasso, Burkina Faso	72.7
Macolab S.A.S. (Manufacture Corse des Tabacs)	France, Bastia	Manufacture and sales of cigarettes Route Nationale 193, Furiani, 20600, France	99.9
Manufacture de Cigarettes du Tchad S.A. ^(a)	Tchad	Manufacture and distribution of cigarettes in Chad 0502 rue 1039, Arrondissement I, NDjamena, Chad	95.0
Midsid - Sociedade Portuguesa de Distribuição, S.A.U.	Portugal	Wholesale of tobacco and other products Expansão da Área Industrial do Passil, Edifício Logista, Lote 1A, Palhava, Alcochete, Portugal	50.0
MTOA S.A. ^(a)	Senegal	Manufacture and sales of cigarettes in Senegal Km 2-5 Bld du Centenaire de la commune de Dakar, Dakar, Senegal	98.3
NITAF Limited, IL ^(a)	Nigeria	In liquidation 28, Ground Floor, Ajasa Street, Off King George V Road, Onikan, Lagos, Nigeria	50.0
Promotora Vascongada de Distribuciones S.A.U.	Spain	Distribution of published materials and other products in Biscay and Santander C/ Guipúzcoa, 5, Poligono Industrial Lezama Leguizamón, 48450 Echevarri, Vizcaya, Spain	50.0
Publicaciones y Libros S.A.U.	Spain	Publishing company Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a - Módulo 3, Alcoror, Madrid, 28922, Spain	50.0
Reemtsma Kyrgyzstan OJSC ^(a)	Kyrgyzstan	In liquidation 249 Ibraimov Street, Bishkek, Kyrgyz Republic, 720011, Kyrgyzstan	99.7
S3T Pte Ltd ^(a)	Singapore	Holding investments in subsidiary companies 80 Robinson Road, #02-00, 068898, Singapore	51.0
SACIMEM S.A. ^(a)	Madagascar	Manufacture of cigarettes in Madagascar 110 Antsirabe - Madagascar, Route d'Ambositra, BP 128, Madagascar	65.4
SITAB Industries S.A. ^(a)	Cote D'Ivoire	Manufacture of cigarettes in Cote D'Ivoire Rue de l'Industrie - Lot No 19, 01 - BP 607, Bouake, Cote d'Ivoire	75.8
SITAR Holding S.A.S.	France (La Reunion Island)	Holding investments in subsidiary companies Z.I n2, B.P. 256, 97457 Saint Pierre, Ile de la Reunion, France	99.0
Société Africaine d'Impression Industrielle S.A. ^(a)	Senegal	Manufacture and distribution of cigarettes in Senegal route de Bel Air - Km 2200, Dakar, Senegal	99.8
Société Allumettière Française S.A.S.	France	Manufacture and distribution of cigarettes Immeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Société des Cigarettes Gabonaises S.A. ^(a)	Gabon	In liquidation 2381 bld Léon MBA, BP 2175, Libreville, Gabon	87.8
Société Industrielle et Agricole du Tabac Tropical S.A. ^(a)	Congo	Manufacture and distribution of cigarettes in Congo Avenue de la Pointe Hollandaise, Mpila, BP 50, Brazzaville, Congo	89.7
Société Ivoirienne des Tabacs S.A. ^{(a)(b)}	Cote D'Ivoire	Manufacture and distribution of cigarettes in Côte D'Ivoire Coody-Nord, Quartier Gendarmerie, TF 9937, 01 B.P. 724 Abidjan	74.8
Société Marocaine des Tabacs S.A.	Morocco	Manufacture and distribution of cigarettes in Morocco 87 Rue Hamed El Figuigui, Casablanca, 20500, Morocco	99.9
SOCTAM S.A. ^(a)	Madagascar	Manufacture and distribution of cigarettes in Madagascar 15 Rue Georges V, Mahajanga, Madagascar	50.5
SOTCHADIS S.A.S. ^(a)	Chad	Non-trading 502 Rue 1039, BP 852, NDjamena, Chad	95.0
Supergroup S.A.S.	France	Wholesale of tobacco products Immeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France	50.0
Terzia S.P.A.	Italy	Wholesale to tobaccoists in Italy Via Valadier, 37 - 00193 Roma, Italy	50.0

ASSOCIATES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Alcome S.A.S.	France	Waste management 88 avenue des Ternes, Paris, 75017, France	24.0
Azur Finances S.A.	Cameroon	Holding investments in subsidiary companies B.P 1105, Douala, Cameroon	20.0
Compañía Española de Tabaco en Rama SA (Cetarsa) ⁽⁹⁾	Spain	Production and sale of raw tobacco Avenida de las Angustias, 20, 10300 Navalmoral de la Mata, Cáceres, Spain	20.8
Distribuidora de Ediciones SADE, S.A.	Spain	Distribution of published materials and other products in Spain Calle B, esquina calle 4, s/n. Sector B, Polígono Industrial Zona Franca, 08040 Barcelona, Spain	35.0
Distribuidora de Publicaciones del Sur, S.A.	Spain	Distribution of published materials and other products Carretera de la Esclusa, S/N - Parcela 2, Módulo 4, Sevilla, 41011, Spain	25.0
Distribución de Publicaciones Siglo XXI, Guadalajara	Spain	Distribution of published materials and other products in Spain Francisco Medina y Mendoza, 2, 19171 Cabanillas del Campo, Guadalajara, Spain	40.0
Distribuidora Valenciana de Ediciones S.A.	Spain	Distribution of published materials and other products in Valencia Pedrapiquers 5, Polígono Industrial Vara de Quart, Valencia, 46014, Spain	25.0
Entreprises des Tabacs en Guinée ⁽⁹⁾	Guinée Conakry	Dormant B.P 3391, Conakry, Guinea	34.0
Logista Libros S.L.	Spain	Distribution of books Avda. Castilla La Mancha, 2 - Naves 3-4 del Polígono Industrial La Quinta, Cabanillas del Campo, Guadalajara, Spain	25.0
Promotion et Distribution a Madagascar ⁽⁹⁾	Madagascar	Distribution of cigarettes in Madagascar Tour ZITAL, Ankorondrano, Antananarivo, Madagascar	33.4
SITABAC S.A.	Cameroon	Manufacture and distribution of tobacco products in Cameroon 113 Rue Kitchener, 1067 Bonanjo, Douala, Cameroon	34.5
Société Internationale des Tabacs Malgaches ⁽⁹⁾	Madagascar	Leaf processing BP 270, 401 Mahajanga, Madagascar	47.9
Société Nationale des Tabacs et Allumettes du Mali S.A. ⁽⁹⁾	Mali	Manufacture and distribution of cigarettes in Mali Route Sotuba - Z.I, BP 59, Bamako, Mali	28.0

JOINT VENTURES: INCORPORATED OVERSEAS

Name	Country of incorporation	Principal activity and registered address	Percentage owned
Compañía de Distribución Integral Logista S.A.U. y GTECH Global Lottery, S.L.U., U.T.E.	Spain	In Liquidation C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain	25.0
Global Horizon Ventures Limited	Hong Kong	Sales and marketing of cigarettes in Asia Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong	50.0
Intertab S.A. ⁽⁹⁾	Switzerland	Holding investments in subsidiary companies Société Fiduciaire Suisse-Coopers & Lybrand S.A., Route de la Glâne 107, Villars-sur-Glâne, 1752, Switzerland	50.0
West Tobacco Pte Ltd ⁽⁹⁾	Singapore	Dormant 50 Raffles Place #32-01, Singapore Land Tower, 048623, Singapore	50.0

RELATED UNDERTAKINGS – CONTINUED

PARTNERSHIPS

The Group also owns the following partnerships:

Name	Country	Principal activity, registered address and principal place of business
Fabrica de Tabacos La Flor de Copan S de R.L. de C.V.	Honduras	Holding investments in subsidiary companies Registered address and principal place of business: Apartado Postal 209, Colonia Mejia-Garcia, Santa Rosa de Copan, Honduras
Imperial Tobacco (Erika) GmbH & Co. KG	Germany	Manufacture of tubes in Germany Registered address and principal place of business: Max-Born-Straße 4, Hamburg, 22761, Germany
Imperial Tobacco Kazakhstan LLP ^(a)	Kazakhstan	Marketing and distribution of tobacco products in Kazakhstan Registered address and principal place of business: 3rd Floor, Prime Business Park, 100/2 Nursultan Nazarbayev Avenue, Medeuskiy District, Almaty, 050000, Kazakhstan
ITC Brands Holdpartner LP	United States of America	Marketing and sale of tobacco products in United States of America Registered address and principal place of business: 714 Green Valley Road, Greensboro, NC27408, United States of America

The subsidiaries listed were held throughout the year and the consolidated Group financial statements include all the subsidiary undertakings identified. All dormant UK entities have taken the exemption available to not have an audit of their financial statements.

Unless otherwise stated the entities are unlisted, have 1 type of ordinary share capital and a reporting period ending on 30 September each year.

- (i) December year end
- (ii) March year end
- (iii) Listed entity
- (iv) Holding of one type of ordinary share only (where more than one type of share is authorised / in issue).
- (v) Holding of two or more types of ordinary share (where more than one type of ordinary share is authorised / in issue).
Only applicable to 100% owned subsidiaries.
- (vi) Holding of preference shares only
- (vii) Holding of ordinary and preference shares
- (viii) Holding of ordinary and redeemable shares
- (ix) Holding of ordinary and deferred shares
- (x) Holding of two types of ordinary share and redeemable shares
- (xi) Holding of shares limited by guarantee.

The percentage of issued share capital held by the immediate parent and the effective voting rights of the Group are the same except for Imperial Tobacco Italia Srl where the entire share capital, and therefore 100 per cent of the voting rights, are held by a number of Group companies.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR AND DIVIDENDS

Half-year results are expected to be announced in May 2022 and the full-year's results in November 2022.

The Annual General Meeting of the Company will be held on Wednesday 2 February 2022 at the Bristol Marriott Hotel, City Centre. The Notice of Meeting and explanatory notes about the resolutions to be proposed are set out in the circular enclosed with this Report.

Dividends are generally paid at the end of March, June, September and December. Payment of the 2021 final dividend, if approved, will be on 31 March 2022 to shareholders on the Register of Members at the close of business on 18 February 2022. The associated ex-dividend date will be 17 February 2022.

SHARE DEALING SERVICE

Our Registrars offer Shareview Dealing, a service which allows you to buy or sell Imperial Brands PLC ordinary shares if you are a UK resident. You can deal on the internet or by phone. Log on to www.shareview.co.uk/dealing or call them on 03456 037 037 between 8.00am and 4.30pm Monday to Friday for more information about this service. If you wish to sell your Imperial Brands PLC ordinary shares, you will need your shareholder reference number, which you can find on your share certificate.

INDIVIDUAL SAVINGS ACCOUNT

Investors in Imperial Brands PLC ordinary shares may take advantage of a low-cost Individual Savings Account (ISA) and Investment Account where they can hold their Imperial Brands PLC ordinary shares electronically. The ISA and Investment Account are operated by Equiniti Financial Services Limited. Commission starts from £12.50 and £1.75 respectively for the sale and purchase of shares.

For a brochure or to apply for an ISA or Investment Account go online to www.shareview.co.uk/dealing or call Equiniti on 0345 0700 720.

DIVIDEND REINVESTMENT PLAN

Imperial Brands PLC has set up a dividend reinvestment plan (DRIP) to enable shareholders to use their cash dividend to buy further Imperial Brands PLC ordinary shares in the market. Further information can be obtained from Equiniti on 0371 384 2037 (+44 371 384 2037 if calling from outside the UK) or online at www.shareview.co.uk

AMERICAN DEPOSITORY RECEIPT FACILITY

Imperial Brands PLC ordinary shares are traded on the OTCQX International Premier platform in the form of American Depositary Shares (ADSs) using the symbol 'IMBBY'. The ADS facility is administered by J.P. Morgan Chase, N.A. and enquiries should be directed to them at the address shown opposite.

WEBSITE

Information on Imperial Brands PLC is available on our website: www.imperialbrandsplc.com

Equiniti also offers a range of shareholder information online. You can access information on your holdings, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www.shareview.co.uk

SUPPLEMENTARY INFORMATION SHAREHOLDER INFORMATION - CONTINUED

REGISTERED OFFICE

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REGISTRARS

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0371 384 2037*

+44 (0)121 415 7009

0371 384 2255* text phone for shareholders with hearing difficulties

* Lines are open 8.30am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

AMERICAN DEPOSITARY RECEIPT FACILITY

EQ Shareowner Services
P.O. Box 64504
St. Paul, MN 55164-0504

Toll-free number inside USA: +1-800-990-1135*

From outside the USA: +1 651-453-2128*

Online: Visit www.shareowneronline.com, then scroll down to 'Contact Us' information.

* Lines are open Monday to Friday 7am to 7pm (Central Time US).

CORPORATE BROKERS

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