

LOOKING TO THE FUTURE WITH CONFIDENCE

Thérèse Esperdy is the new Chair of Imperial, having previously served as Senior Independent Director since May 2019. Thérèse joined the Board in July 2016 and was appointed Chair on 1 January 2020.



DEAR SHAREHOLDERS

This was a year of significant change, in which the Board took decisive action to address performance issues and strengthen leadership capabilities. After appointing a new Chief Executive Officer, we initiated a strategic review of the Company that is assessing all aspects of our strategy, business model, culture and purpose. The results will be shared with stakeholders in January 2021.

The actions we have taken underpin our commitment to create a more consumer focused organisation that will deliver stronger and more consistent results in both tobacco and next generation products (NGP). The Board firmly believes Imperial has great potential and we will continue to make the improvements required to realise the value creation opportunities that lie ahead.

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Our new CEO Stefan Bomhard will be instrumental in realising these opportunities. He joined the Board on 1 July 2020, following five successful years as CEO at Inchcape, the global automotive distribution and retail company. He brings significant brand-building and consumer-led sales and marketing experience from large multinational organisations across multiple sectors.

Stefan is our first external CEO and is providing a fresh perspective at a pivotal time for the business. As well as leading Imperial through the final quarter of the year, Stefan has been strengthening the Executive Committee (ExCom) to ensure we have the skills, experience and capabilities required to realise our ambitions.

COVID-19

The commitment of our employees has enabled us to respond effectively to the challenges posed by COVID-19. We continued to prioritise their health and safety as we entered the second wave of the pandemic. On behalf of the Board, I would like to thank all our people around the world for their support and dedication.

The vast majority of our manufacturing sites operated throughout the coronavirus crisis, ensuring we maintained supply to our consumers. Employees in other functions worked from home and many continue to do so, as we embed new and more flexible ways of working.

The Board was highly engaged in the way the organisation responded to the situation. At the height of the pandemic, the safety of our people and the performance of the business were the most important agenda items in all formal and informal Board meetings.

I was in contact with our executive and senior management team throughout, and the Board received detailed weekly update reports. A series of additional Board calls with senior leaders was established to enable Non-Executive Directors to hear and discuss how the business was responding. Although the level of engagement was adjusted as the situation stabilised during the second half of the year, the Board continues to receive regular updates.

STATEMENT ON SECTION 172 OF THE COMPANIES ACT 2006

The ongoing sustainable success of the business is dependent on our relationship with a wide range of stakeholders, including shareholders, consumers, employees, suppliers, retailers, governments and non-governmental organisations.

Your Board seeks to consider the interests of all relevant stakeholders when reaching decisions.

Throughout this report you will find information about how the Board operates and makes decisions in accordance with Section 172 of the Companies Act, which states that:

- A director of a company must act in the way he/ she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
 - a. the likely consequences of any decision in the long term,
 - b. the interests of the company's employees,
 - c. the need to foster the company's 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, and
 - f. the need to act fairly as between members of the company.

► See pages 14, 15 and 68 for more information

Balance sheet and dividend

COVID-19 impacted the timing of the completion of the sale of our Premium Cigar business in the year. The transaction was completed in the first quarter of the new financial year realising proceeds of €1.1 billion, which will be used to reduce debt.

The importance of deleveraging to strengthen the balance sheet and support a more flexible approach to capital allocation has been heightened by the uncertainty and volatility of the current environment.

With that in mind, the Board decided in May to rebase the dividend by one-third to accelerate debt repayment. Going forward, we will retain a progressive dividend policy, with the dividend growing annually from the rebased level, taking into account underlying business performance.

Board engagement

Given the level of change during the year, it was imperative for myself and the Board to step up our stakeholder engagement. My focus was on shareholders and employees.

I have regularly engaged with shareholders throughout the year, recognising the need to hear their concerns directly and to inform them of the steps we are taking to address performance issues, as well as updating them on our progress with the Chair, CEO and CFO transitions. I have welcomed engagement through the Investor Forum, which has provided a useful conduit to address shareholder concerns. We have also had constructive dialogue with shareholders on the proposed new Remuneration Policy.

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My communication with employees was focused on keeping them updated on the appointment of Stefan, including introducing him to the business. I have also engaged with our people on the importance of working together to create a new and inclusive culture that will support the new strategy and embrace diversity and equality.

Environmental, social and governance responsibilities

Our sustainability strategy is integral to our long-term success and frames the way we manage our environmental, social and governance (ESG) responsibilities. ESG considerations inform the way we run the business and are regularly assessed by the Board.

One of my first actions as Chair was to establish an ESG Steering Committee to provide greater oversight of the way we address ESG issues. The committee is chaired by me and is comprised of senior leaders from across the business.

The committee's initial focus has been to establish key performance indicators for our main ESG responsibilities. We will start reporting against these new KPIs in the 2021 financial year, once they have been aligned with the refreshed corporate strategy.

Board changes

My predecessor Mark Williamson, who served on the Board for 13 years, including six as Chairman, stepped down in December and I would like to thank him for the significant contribution he made to Imperial over the years.

Former Chief Executive Alison Cooper and Chief Development Officer Matthew Phillips left the business in February and Dominic Brisby (Divisional Director, Americas, Africa, Asia and Australasia) and Joerg Biebnick (Divisional Director, Europe) assumed the roles of Joint Interim CEOs, until Stefan's appointment.

Dominic and Joerg took on these roles just weeks before the coronavirus pandemic worsened, leading to lockdown restrictions across our markets. I would like to thank them for stepping up to lead the business in such challenging circumstances. Both have returned to their divisional roles, reporting to Stefan.

In June Karen Witts, Chair of the Audit Committee, stepped down from the Board after six years as a Non-Executive Director. Jon Stanton, who has been a member of the Audit Committee since May 2019 and has the required relevant financial experience, took over as Chair of the Audit Committee. My thanks to Karen for her considerable contribution.

In July we welcomed Pierre-Jean Sivignon to the Board as Non-Executive Director and a member of the Audit Committee. Pierre-Jean is an experienced finance professional, having held Chief Financial Officer positions at a number of companies including the global retailer Groupe Carrefour, where he was also deputy Chief Executive Officer. Pierre-Jean's international financial expertise in customer facing businesses will be of great value to Imperial.

Bob Kunze-Concewitz, Chief Executive of Campari Group, will join the Board on 1 November 2020. Bob has a wealth of international business experience and is particularly skilled at marketing, having held a number of senior roles at leading FMCG companies. His skills and capabilities will be another strong addition to the Board.

I was pleased that Sue Clark agreed to succeed me as Senior Independent Director in January. Sue is also Chair of the Remuneration Committee and has been leading the current Remuneration Policy review, which will be put to shareholders for approval at the Annual General Meeting in February 2021.

These appointments reflect my drive to reshape the Board and strengthen its capabilities to bring real insight and experience from the consumer and retailer sectors. I am determined to improve the diversity of the Board going forward to ensure we have the best possible mix of skills, experience and perspectives to support the business.

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The year ahead

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The Board is working with Stefan to finalise the strategic review and we look forward to updating stakeholders early in the 2021 calendar year. Tobacco will continue to be the core focus, supported by stronger, more disciplined NGP operations. Our key aim is to ensure that over time, we deliver a better and more consistent performance that will create long-term sustainable value.



THÉRÈSE ESPERDY
Chair