Group Financial Statements

Notes to the Financial Statements

Parent Company Financial Statements

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 2020 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- 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, and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Imperial Brands plc, which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2020	Balance sheet as at 30 September 2020
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 I 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 36 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and IFRSs as adopted by the EU. 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 below. We are independent of the Group and parent company 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.

We believe that the audit evidence we have obtained during the planning, execution and conclusion of our audit is sufficient and appropriate to provide a suitable basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report and accounts, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report and accounts, set out on pages 42 to 59, that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 60 in the annual report and accounts, that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement, set out on page 60 in the annual report and accounts, about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on page 60 in the annual report and accounts, as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue recognition, including management override of controls • Impact of COVID-19 on the Group's going concern assessment • Accounting and reporting of NGP • Uncertain tax positions • Sale of Premium Cigar division • Litigation
Audit scope	• We performed an audit of the complete financial information of 7 components and audit procedures on specific balances for a further 21 components. • The components where we performed full or specific audit procedures accounted for 82% of profit before tax, 84% of revenue and 83% of total assets.
Materiality	• Overall Group materiality of £111m which represents 5% of profit before tax, adjusted for one-off, non-recurring items.
First year audit transition	The year ended 30 September 2020 is our first as auditor of the Group. We commenced transition at the start of the audit professional engagement period on 1 July 2019 including shadowing the previous auditor through the 30 September 2019 audit, such as attendance at certain close meetings and the Audit Committee meeting. Subsequently, audit transition activities focussed on the following areas: **Mobilisation of the global audit team:** • We held an onboarding and transition event in London, attended by senior members of the Group audit team, Finance Shared Service Centre audit team, and all full scope and specific scope audit teams. • Over two days approximately 40 audit colleagues attended sessions on several topics relating to audit planning, including Group audit strategy, key audit risks, deployment of technologies, our approach to testing through shared service centres, and division of responsibilities between teams for centralised audit procedures and our approach to ensuring a consistently high quality audit. • Prior to the half year interim review, the Group audit team interacted regularly with all full and specific scope audit teams to obtain a better understanding of the business, evaluate the audit transition progress of component audit teams and provide early direction of the audit strategy at key locations. **Establishing our audit base prior to reaching our interim review conclusion for the six months ended 31 March 2020:** • We evaluated all key accounting judgement papers and the Group's accounting policies. • We undertook reviews of the predecessor auditor files to consider working papers in relation to significant audit risk matters, to identify and assess the judgements exercised over these risks and to assess the nature, timing and extent of audit procedures performed in forming the prior year auditor opinion. • We understood and walked through the key processes at Group and in the full scope audit locations which were significant in size.

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
Revenue recognition, including management override of controls (2020: £32,562m, 2019: £31,594m) 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.	We obtained an understanding of the revenue process and understood how Imperial's revenue recognition policies are applied. We reviewed the Group revenue recognition policies, as documented in the Group Accounting Manual, for compliance with IFRS 15 'Revenue from contracts with customers'.. We discussed and reviewed key contractual arrangements with management and obtained relevant documentation, including in respect of rebate arrangements. Where rebate arrangements existed, on a sample basis, we obtained third-party confirmations or performed appropriate alternative procedures, including reviewing contracts and recalculating rebates. We also performed hindsight analysis over changes to prior period rebate estimates to challenge the assumptions made, including assessing the estimates for evidence of management bias.

Risk	Our response to the risk
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, either through deliberately pushing sales into the channel at period ends (trade loading) or by recording fictitious manual journals to revenue (e.g. by inappropriate accounting relating to rebates). Refer to the audit committee report (page 80); accounting policies (note 1); accounting estimates and judgements (note 2); and segmental information (note 3 of the consolidated financial statements).	As part of our overall revenue recognition testing for five full and eight specific scope components, 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 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 £17.6 billion (54%) of revenue recognised by the Group. For those in-scope components where we did not use data analysis techniques, we performed appropriate alternative procedures. Our procedures, applicable to all full and specific scope components included the following: • Detailed, disaggregated analytical review to identify unusual trends and inventory positions which could indicate that inventory was being 'pushed' into the channel; • Inquiries of management outside of finance, to identify instances of late or unusual requests for shipments or extensions of credit terms; • 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 of 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. The audit procedures performed to address this risk were performed by component teams and reviewed by the Group team.

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 during the year.

Risk	Our response to the risk
Accounting and reporting of NGP Against the industry backdrop of long term volume decline in global tobacco sales, there is increased stakeholder focus on NGP as a potential source of sustainable future growth. Therefore, NGP performance has a disproportionate impact on stakeholder's perceptions of the Group. Despite making up only a small proportion of Group income, failure to achieve expected results may lead to significant share price erosion. There is therefore a risk that NGP performance is overstated. We consider that this risk manifests itself in three principal ways: **Recognition of NGP net revenue (2020: £201m, 2019: £278m)** NGP net revenue is a non-GAAP measure intended to provide the users of the accounts with an estimate of sales to third parties by removing the impact of stock accumulation at Logista. (Refer to the "Other non-GAAP measures used by management" section of the Group Accounting Policies for fuller definition) In calculating NGP net revenue, management adjust reported NGP revenue to eliminate inventory build at Logista. This requires the application of judgement in determining an appropriate inventory holding period at Logista and in forecasting future sales. This results in a risk that NGP net revenue is misstated.	**NGP net revenue** We understood the methodology applied by management in performing the calculation of NGP net revenue and walked through the controls over this process. We performed detailed testing, including consideration of contradictory evidence, to critically assess the key inputs to the calculation, including: • 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. **Carrying value of NGP inventory** We understood the methodology applied by management in estimating the NGP inventory provision and walked through the controls over the provisioning process. We performed detailed testing, including consideration of contradictory evidence, to critically assess the key inputs to the valuations, including: • analysing the historical accuracy of sales forecasts to actual results to determine whether forecasts are reliable based on experience; • assessing the useful life of inventories by meeting with Imperial Science and benchmarking against analogous competitor products; and • performing sensitivity and reverse stress testing and evaluating the probability of inputs varying.

Risk	Our response to the risk
Carrying value of NGP inventory (Inventory provision – 2020: £86m, 2019: £34m) Sales trends in the NGP category have seen significant volatility caused by regulatory changes and adverse media coverage. There is a risk that NGP inventory will not be sold before it reaches expiry. The assessment of the level of inventory provisioning requires the application of judgement in determining the useful life of devices and consumables, and in forecasting future sales. **Carrying value of NGP intangible assets (Impairment charge - 2020: £27 million, 2019: £10 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 to be used in the NGP category. These circumstances could lead to an impairment that has not been recognised by management. Refer to the audit committee report (pages 78 and 80); accounting policies (note 1); and accounting estimates and judgements (note 2) of the consolidated financial statements.	**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: • 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

For NGP net revenue, we consider the accounting policy presented in the Annual Report and Accounts transparently discloses how the metric is derived and why it is used.

We are satisfied that the carrying value of NGP inventory is materially correct.

For NGP intangible assets, we consider that the commentary in the Annual Report is appropriate, including disclosure of the £27m impairment and signposting to users that the strategic review is ongoing. We are satisfied that the carrying value of NGP intangible assets is materially correct.

Risk	Our response to the risk
Uncertain tax positions (Provision for uncertain tax positions – 2020: £273m, 2019: £204m) The global nature of the Group's operations results in complexities in the payment of and accounting for tax. Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws.	We understood: • 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. 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, the Netherlands, Spain and the USA.

Risk	Our response to the risk
Given this judgement, there is a risk that tax provisions are misstated. Refer to the audit committee report (page 79); accounting policies (note 1); accounting estimates and judgements (note 2); and note 8 of the consolidated financial statements.	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. 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. 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.

Key observations communicated to the Audit Committee

Based on the procedures performed, we consider the amounts provided are reasonable. We consider the Group's disclosures are also appropriate.

Risk	Our response to the risk
Impact of COVID-19 on the Group's going concern assessment In assessing whether the financial statements should be prepared on a going concern basis, the directors are required to consider all available information about the future for a period of at least 12 months from the date of approval of the financial statements. The directors have considered a going concern period through to the end of March 2022. In conducting their assessment, the directors concluded that there are no material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern. Further description of this assessment is included in note 1 to the financial statements. The potential impact of COVID-19 on the Group, resulted in increased consideration of the risks to the going concern basis of preparation compared with previous periods. Refer to the audit committee report (page 78) and accounting policies (note 1) of the consolidated financial statements.	We understood the process undertaken by management to perform the going concern assessment, including the evaluation of any operational and economic impacts of COVID-19 on the Group. We tested the clerical accuracy of the model used to prepare the Group's going concern assessment. We assessed the reasonableness of the cashflow forecast by analysing management's historical forecasting accuracy. We evaluated the key assumptions underpinning the Group's forecasts by proposing alternatives, reflecting the uncertainties arising from COVID-19, and challenging management's position. We also considered whether the Group's forecasts in the going concern assessment were consistent with other forecasts used by the Group in its accounting estimates, including goodwill impairment. We considered, based on our own independent analysis, what reverse stress testing scenarios could lead either to a loss of liquidity or a covenant breach and whether these scenarios were plausible. Our assessment included consideration of the impact and likelihood of: • accelerated duty payments • settlement of litigation and uncertain tax exposures • default of significant customers • prolonged factory closures Our analysis also considered the mitigating actions that management could undertake in an extreme downside scenario. We also confirmed the availability of debt facilities, and reviewed their underlying terms, including covenants, by examination of executed documentation. We assessed the appropriateness of the Group's disclosure concerning the going concern basis of preparation. The audit procedures performed to address this risk were performed by the Group audit team.

Key observations communicated to the Audit Committee

We are satisfied that the Directors' conclusion that there are no material uncertainties over the Group's ability to continue as a going concern is appropriate and the associated disclosures are in accordance with accounting standards and the UK Corporate Governance Code.

Risk	Our response to the risk
Sale of Premium Cigar division (Asset held for sale – 2020: £1,024m, 2019: £1,066m) Management continued to treat the disposal group (the Premium Cigar Division) as held for sale at year-end, with the transaction formally completing on 29 October 2020. During the year updates were made to the carrying value of the disposal Group reflecting the deferral of the disposal of the La Romana assets to 2022 and adjustments to the proceeds expected to be received. The timing of the transaction resulted in the application of judgement in determining the appropriate accounting treatment. These include: • the probability of the sale occurring, • the impairment of the disposal Group, and • the estimation of the value of exchange translation reserve which is disclosed in the Annual Report and will be recycled through the income statement in FY21. Refer to the audit committee report (page 79); accounting policies (note 1); accounting estimates and judgements (note 2); and note 11 of the consolidated financial statements.	To assess the probability of sale occurring and the timeframe over which this may happen we read vendor correspondence, including the Sale and Purchase Agreement and subsequent amendments, and considered the evidence upon which management based its judgement, including the cash receipt in September 2020, the satisfaction of conditions precedent as required by the SPA, the formal completion of the transaction and further cash receipts in October 2020. To assess the valuation of the asset held for sale we: • assessed management's calculation of expected proceeds and estimation of transaction costs, from which the carrying value of the disposal Group is derived • assessed the allocation of the impairment charge to asset classes against the IFRS 5 criteria • performed integrity checks over management's carve-out model • Performed procedures to test the value of the carve-out Group, including physical verification of buildings, inventory counts, verification of balances held with the carve-out Group, verification of the elimination of intra-Group balances held between carve-out Group and other Group entities. To assess the valuation of the cumulative exchange translation reserve recycled to the income statement in FY21, as disclosed in the Annual Report, we independently calculated a range of potential values where alternative methodologies are available under IAS 21, comparing management's estimate to our range. 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.

Key observations communicated to the Audit Committee

We concluded that the impact of the sale has been appropriately reflected in the financial statements.

Risk	Our response to the risk
Litigation Refer to pages 90 to 94 of the Directors' Report and note 30 of the consolidated financial statements 'contingent liabilities'. The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking, vaping and health-related effects. Judgement is involved in determining the likelihood of a probable outflow occurring from a legal case, together with the estimate of the likely financial cost. In the US, tobacco-related litigation is managed separately by the Master Settlement Agreement ("MSA"). Four states are not parties to this agreement and claims have been raised by these states (Previously Settled States) against the Group's US business, ITG Brands, in respect of whether annual payments are required following the acquisition of certain US brands in June 2015. The Group continues to receive legal advice in relation to these claims that supports management's assessment that, at present, it is possible but not probable that the Group will incur an outflow of resources and therefore a contingent liability is disclosed.	We assessed the processes and controls over litigation operated by management at Group and local level, 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. We inspected Imperial's litigation log and communications to the Executive Committee and met with Group Finance, Group General Legal Counsel and the Group's external legal counsel to discuss the developments in significant cases. 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.

Risk	Our response to the risk
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. The Group has received a lawsuit under the Helms-Burton legislation relating to use of property confiscated from the US by the Cuban state. The Group is currently protected by the EU Council Regulation Blocking Statute which would prevent the recognition and enforcement of any US Courts judgement based on Helms-Burton in any EU Member state court. However, this also limits the ability of the Group to defend themselves in the US Courts. Consequently, management have determined that an outflow of resources is possible and therefore disclosed this matter as a contingent liability. Refer to the audit committee report (page 81); accounting policies accounting policies (note 1); accounting estimates and judgements (note 2) of the consolidated financial statements.	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. 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.

Key observations communicated to the Audit Committee

Having met with internal Legal Counsel and evaluated the status of cases, considering responses from external lawyers, we consider legal matters have been adequately provided for or disclosed in the annual report. Following our recommendation, additional disclosure was included in the Annual Report to quantity the contingent liability relating to Previously Settled States (PSS).

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements under ISA(UK). 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 the business environment) and other known factors when assessing the level of work to be performed at each entity.

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 377 reporting components of the Group, we selected 28 components.

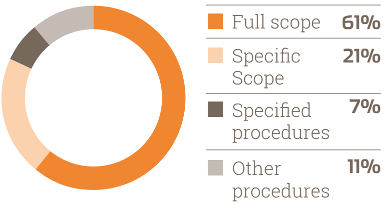
Of the 28 components selected, we performed an audit of the complete financial information of 7 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 21 components ("specific scope components"), we performed audit procedures on specific 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.

The reporting components where we performed full and specific scope procedures accounted for 82% of the Group's profit before tax and 84% of the Group's revenue. For the current year, the full scope components contributed 61% of the Group's profit before tax, 62% of the Group's revenue and 41% of the Group's total assets. The specific scope components contributed 21% of the Group's profit before tax and 22% of the Group's revenue. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. In addition, we conducted specified procedures over a number of account balances relating to 37 reporting units, representing 7% of the Group's profit before tax, 13% of the Group's revenue and 9% of the Group's total assets, in response to the specific risks associated with these.

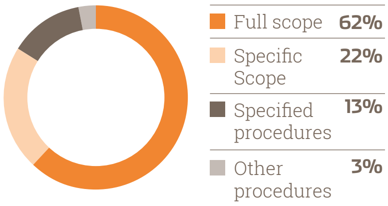
Of the remaining components that together represent 11% of the Group's profit before tax, none are individually greater than 1% of the Group's profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts illustrate the coverage obtained from the work performed by our audit teams.

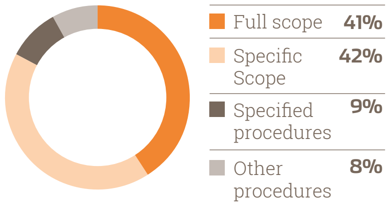
Profit before tax



Revenue



Total assets



Impact of the COVID-19 pandemic – audit logistics

We worked proactively with Imperial to agree a revised timetable to provide sufficient time for the judgements arising from COVID-19 to be considered fully, disclosures adequately assessed, and to reflect the extended time taken for management to complete the financial statement close process and to reflect the incremental time impact on completing our year end external audit fully remotely. This resulted in a two week extension to the publication of results and the finalisation of our audit.

We had already completed our audit planning procedures and some early substantive audit testing in advance of the year end for a number of in-scope locations on site with the Imperial teams. The Group audit team performed the year-end audit fully remotely, starting from 12 October 2020. We engaged with Imperial throughout the audit, using video calls, share-screen functionality, secure encrypted document exchanges and data downloads to avoid any limitation on the audit evidence required.

We were alert to instances requiring physical verification of original documents and where not addressed through our pre-year end audit work we used secure encrypted data exchanges. In instances when physical access to sites was restricted due to social distancing measures, we conducted inventory counts remotely using mobile video technology. All key meetings, such as the closing meetings and Audit Committees, were performed via video conference calls.

We have refined our methods of interaction to ensure direction by the Partner in Charge throughout the audit, ensuring involvement in key calls throughout the audit both internally and with Imperial management. We held weekly senior stakeholder escalation calls with the Group CFO and Partner in Charge to ensure progress was assessed robustly and audit matters arising were discussed at each meeting. Additional calls were held with the Chair of the Audit Committee to consider audit progress, timetable and matters arising.

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, as the Group audit team, or by component auditors from other EY global network firms operating under our instruction. Of the 7 full scope components, audit procedures were performed on 6 of these directly by the Group audit team and 6 by component audit teams. For the 21 specific scope components, audit procedures were performed on 4 of these directly by the Group audit team and 17 by component auditors. 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.

During the period the Senior Statutory Auditor visited the USA which is a full scope component. All full and specific scope component audit partners and a number of other members of these component teams visited the Group team in December 2019 to attend an initial Group planning meeting to increase their understanding of the business.

Impact of the COVID-19 pandemic – direction, supervision and review of component teams

The physical visits to component teams planned for the remainder of 2020 had to be adjusted and replaced by virtual meetings due to the travel restrictions imposed by the COVID-19 outbreak.

These visits and 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.

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 £111m (2019: £130m), which is 5% of profit before tax, adjusted for one-off, non-recurring items (2019: 4% of adjusted profit before tax). We consider that this basis provides the most relevant performance measure to the stakeholders of the Group

We determined materiality for the Parent Company to be £123m (2019: £141m), which is 2% of net assets (2019: 1% of total assets). The materiality was capped at the Group allocated materiality of £25m (2019: £10m).

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.

We have set performance materiality at 50% of our planning materiality, calculated as £55m (2019: £97.5m). This percentage was based upon a combination of risk factors including this being our first year of audit, significant corporate transactions and the level of adjustments identified by the predecessor auditor 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 £6m to £30m (2019: £10m to £40m).

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 £5.5m (2019: £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 and accounts set out on pages 1 to 123, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable**, set out on page 81 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting**, set out on pages 76 to 85 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code**, set out on page 63 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 95, 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.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity 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 frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRSs as adopted by the EU, 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. 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 identified in the paragraphs above. Our procedures involved: enquiries of Group management and those charged with governance, legal counsel and the Group security team; journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; and challenging 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 one year, covering the year ending 2020.
- 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.
- 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
17 November 2020

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

£ million unless otherwise indicated	Notes	2020	2019
Revenue	3	**32,562**	31,594
Duty and similar items		**(15,962)**	(15,394)
Other cost of sales		**(10,420)**	(9,960)
Cost of sales		**(26,382)**	(25,354)
Gross profit		**6,180**	6,240
Distribution, advertising and selling costs		**(2,329)**	(2,295)
Acquisition and disposal costs	11	**(26)**	(22)
Amortisation and impairment of acquired intangibles	11/12/15	**(523)**	(1,118)
Excise tax provision	8	**20**	(139)
Fair value adjustment of loan receivable		**(62)**	3
Fair value adjustment of acquisition consideration	12	**–**	(129)
Restructuring costs	5	**(205)**	(144)
Other expenses		**(324)**	(199)
Administrative and other expenses		**(1,120)**	(1,748)
Operating profit	4	**2,731**	2,197
Investment income		**770**	890
Finance costs		**(1,380)**	(1,452)
Net finance costs	6	**(610)**	(562)
Share of profit of investments accounted for using the equity method	15	**45**	55
Profit before tax	4	**2,166**	1,690
Tax	8	**(608)**	(609)
Profit for the year		**1,558**	1,081
Attributable to:			
Owners of the parent		**1,495**	1,010
Non-controlling interests		**63**	71
Earnings per ordinary share (pence)			
• Basic	10	**158.3**	106.0
• Diluted	10	**158.1**	105.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER

£ million	Notes	2020	2019
Profit for the year		**1,558**	1,081
Other comprehensive income			
Exchange movements		**151**	270
Current tax on hedge of net investments		**(10)**	–
Deferred tax on hedge of net investments		**(80)**	–
Items that may be reclassified to profit and loss		**61**	270
Net actuarial gains/(losses) on retirement benefits	24	**277**	(248)
Deferred tax relating to net actuarial (losses)/gains on retirement benefits		**(53)**	52
Items that will not be reclassified to profit and loss		**224**	(196)
Other comprehensive income for the year, net of tax		**285**	74
Total comprehensive income for the year		**1,843**	1,155
Attributable to:			
Owners of the parent		**1,762**	1,086
Non-controlling interests		**81**	69
Total comprehensive income for the year		**1,843**	1,155

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER

£ million	Notes	2020	Reclassified 2019
Non-current assets			
Intangible assets	12	**18,160**	18,596
Property, plant and equipment	13	**1,899**	1,979
Right of use assets	14	**293**	–
Investments accounted for using the equity method	15	**117**	81
Retirement benefit assets	24	**940**	595
Trade and other receivables	17	**57**	119
Derivative financial instruments	22	**813**	677
Deferred tax assets	23	**381**	370
		22,660	22,417
Current assets			
Inventories	16	**4,065**	4,082
Trade and other receivables	17	**2,638**	2,854
Current tax assets	8	**206**	195
Cash and cash equivalents	18/22	**1,626**	2,286
Derivative financial instruments	22	**53**	137
Current assets held for disposal	11	**1,062**	1,103
		9,650	10,657
Total assets		**32,310**	33,074
Current liabilities			
Borrowings	20	**(1,442)**	(1,937)
Derivative financial instruments	22	**(41)**	(28)
Lease liabilities	21	**(64)**	–
Trade and other payables	19	**(10,170)**	(9,352)
Current tax liabilities	8	**(350)**	(313)
Provisions	25	**(220)**	(284)
Current liabilities held for disposal	11	**(38)**	(37)
		(12,325)	(11,951)
Non-current liabilities			
Borrowings	20	**(10,210)**	(11,697)
Derivative financial instruments	22	**(1,641)**	(1,408)
Lease liabilities	20/21	**(235)**	–
Trade and other payables	19	**(5)**	(7)
Deferred tax liabilities	23	**(924)**	(931)
Retirement benefit liabilities	24	**(1,256)**	(1,249)
Provisions	25	**(196)**	(247)
		(14,467)	(15,539)
Total liabilities		**(26,792)**	(27,490)
Net assets		**5,518**	5,584
Equity			
Share capital	26	**103**	103
Share premium and capital redemption		**5,837**	5,837
Retained earnings		**(2,364)**	(2,255)
Exchange translation reserve		**1,295**	1,252
Equity attributable to owners of the parent		**4,871**	4,937
Non-controlling interests		**647**	647
Total equity		**5,518**	5,584

The financial statements on pages 136 to 190 were approved by the Board of Directors on 17 November 2020 and signed on its behalf by:

THÉRÈSE ESPERDY
Chairman

OLIVER TANT
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER

£ 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 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 overseas 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 gains 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**

£ 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 2018	103	5,837	(1,155)	980	5,765	675	6,440
Profit for the year	–	–	1,010	–	1,010	71	1,081
Exchange movements on overseas net assets	–	–	–	232	232	(2)	230
Exchange movements on net investment hedges	–	–	–	(228)	(228)	–	(228)
Exchange movements on quasi-equity loans	–	–	–	268	268	–	268
Net actuarial losses on retirement benefits	–	–	(248)	–	(248)	–	(248)
Deferred tax relating to net actuarial losses on retirement benefits	–	–	52	–	52	–	52
Other comprehensive income	–	–	(196)	272	76	(2)	74
Total comprehensive income	–	–	814	272	1,086	69	1,155
Transactions with owners							
Cash from employees on maturity/exercise of share schemes	–	–	1	–	1	–	1
Costs of employees' services compensated by share schemes	–	–	23	–	23	–	23
Current tax on share-based payments	–	–	1	–	1	–	1
Repurchase of shares	–	–	(108)	–	(108)	–	(108)
Changes in non-controlling interests	–	–	13	–	13	(13)	–
Dividends paid	–	–	(1,844)	–	(1,844)	(84)	(1,928)
At 30 September 2019	103	5,837	(2,255)	1,252	4,937	647	5,584

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

£ million	2020	2019
Cash flows from operating activities		
Operating profit	**2,731**	2,197
Dividends received from investments accounted for under the equity method	**43**	54
Depreciation, amortisation and impairment	**910**	1,316
Profit on disposal of non-current assets	**(2)**	(19)
Post-employment benefits	**(88)**	(72)
Costs of employees' services compensated by share schemes	**20**	23
Fair value adjustment of acquisition consideration (note 12)	**–**	129
Fair value adjustment of loan receivable	**63**	–
Movement in provisions	**(121)**	80
Operating cash flows before movement in working capital	**3,556**	3,708
Decrease/(increase) in inventories	**67**	(560)
Decrease/(increase) in trade and other receivables	**241**	(267)
Increase in trade and other payables	**734**	877
Movement in working capital	**1,042**	50
Tax paid	**(568)**	(522)
Net cash generated from operating activities	**4,030**	3,236
Cash flows from investing activities		
Interest received	**9**	15
Loan to joint ventures	**–**	4
Loan to third parties (note 21)	**(3)**	(75)
Proceeds from the sale of non-current assets	**28**	57
Deposit received from sale of asset held for sale	**83**	–
Purchase of non-current assets	**(302)**	(409)
Purchase of brands and operations (note 12)	**(146)**	(17)
Net cash used in investing activities	**(331)**	(425)
Cash flows from financing activities		
Interest paid	**(429)**	(488)
Cash from employees on maturity/exercise of share schemes	**–**	1
Lease liabilities paid	**(72)**	–
Increase in borrowings	**1,240**	3,699
Repayment of borrowings	**(3,096)**	(2,330)
Cash flows relating to derivative financial instruments	**(23)**	(117)
Repurchase of shares	**(92)**	(108)
Dividends paid to non-controlling interests	**(85)**	(84)
Dividends paid to owners of the parent	**(1,753)**	(1,844)
Net cash used in financing activities	**(4,310)**	(1,271)
Net (decrease)/increase in cash and cash equivalents	**(611)**	1,540
Cash and cash equivalents at start of year	**2,286**	775
Effect of foreign exchange rates on cash and cash equivalents	**13**	(15)
Transferred to held for disposal (note 11)	**(62)**	(14)
Cash and cash equivalents at end of year	**1,626**	2,286

1. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as published by the International Accounting Standards Board and adopted by the EU. In addition, the financial statements comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In the current year, certain items related to 2019 have been represented in the balance sheet as follows:

i. Taxes – See notes 8 and 23 for details;
ii. Pensions – See note 24 for details; and
iii. Assets Held for Sale – Due to better information regarding the structure of the sale of the Premium Cigar business being available, intercompany debt has been netted off in the normal way on consolidation, which has required a restatement of 2019 where the grossing up of intercompany balances in trade receivables and payables with an offsetting entry in Assets Held for Sale was disclosed.

These changes had no impact on previously reported financial performance.

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 Group's resilience to different potential scenarios has been strengthened by the signing of the Group's new €3.5 billion multi-currency revolving credit facility, the sale of our Premium Cigar business, where the €1.1 billion of proceeds will be used for debt reduction, and the signing of €1.7 billion committed 18 month bank facilities.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios on how COVID-19 and some possible consequences arising from the pandemic may affect the business. These included scenarios which examined the implications of:

- The impact of governments accelerating duty payments as seen in FY20 c.£800 million
- The permanent removal of 15% and 30% of EBITDA from 1 October 2020 because markets become closed to tobacco products or there are sustained closures to our tobacco manufacturing and supply chains
- The loss of 10% of current trade receivable c.£0.2 billion due to the inability of customers to pay
- The loss of factoring facilities c.£0.6 billion due to banks re-prioritising uses of cash
- Various scenarios involving the closure of the entire factory network over a one, two and three-month period from 1 October 2020, with a gradual scaling back to full capacity over the subsequent three months. It also considered factory network shutdowns over longer time periods.

The scenario testing 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 and taking full use of the capital expenditure and dividend payment reduction mitigating actions as described above, the Group would have sufficient headroom until March 2022. The Group believes this worst-case scenario to be highly unlikely.

Based on the review of future cashflows covering the period through to March 2022, and having assessed the principal risks facing the Group, including the current and forecast future impacts of the 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 2022 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.

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 2020:

- 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 principal accounting policies, which have been applied consistently other than where new policies have been adopted, are set out below.

Basis of consolidation

The consolidated financial statements comprise the results of Imperial Brands PLC (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:

	2020		2019	
Foreign exchange rate versus GBP	**Closing rate**	**Average rate**	**Closing rate**	**Average rate**
Euro	**1.0960**	**1.1393**	1.1291	1.1315
US Dollar	**1.2832**	**1.2753**	1.2294	1.2766

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 also recognises income arising from the licencing or sale of intellectual property, occurring in the ordinary course of business, which is treated as revenue. Licencing revenue will be recognised over the period of the licence while revenue is recognised immediately on the sale of intellectual property where that represents a long-term right to use the asset.

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 statements. 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 or fair value (depending on how they are acquired) less accumulated amortisation and impairment.

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 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 shown in the consolidated balance sheet at historical cost or fair value (depending on how they are acquired), less accumulated depreciation and impairment. Costs incurred after initial recognition are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably.

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.

All hedge accounting relationships are considered to be continuing hedge relationships following the adoption of IFRS 9.

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.

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 sale and liabilities held for sale.

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. In the event that the outflow of resources associated with a contingent liability is assessed as probable, and if the size of the outflow can be reliably estimated, a provision is recognised in the financial statements.

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.

Use of adjusted measures

Management believes that non-GAAP or adjusted measures provide an important comparison of business performance and reflect the way in which the business is controlled. The adjusted 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 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.

The adjusted 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 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 measures are used by management to assess the Group's financial performance and aid comparability of results year on year.

The principal adjustments made to reported profits are as follows:

Acquisition and disposal costs

Adjusted measures exclude costs associated with major acquisitions and disposals as they do not relate to the day to day operational performance of the Group. Acquisition costs can be significant in size and are one-off in nature. Exclusion of these costs allows a clearer presentation of the day to day underlying costs of the business. Where applicable and not reported separately, this includes changes in contingent or deferred consideration.

Intangible assets

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 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.

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. Following a decision made during the current financial year, gains and losses on the sale of intellectual property are now adjusted out of adjusted operating profit. The prior year comparatives figures have been restated.

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.

Presentation of Auxly

In view of the increasing significance of the movement in the fair value of loan receivables associated with the Auxly investment, from 1 October 2020 the Group has disclosed a fair value loss of £62 million separately on the face of the income statement. Comparative amounts have been restated accordingly, with the gain of £3 million in 2019 being reclassified.

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.

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.

Tax matters

Tax matters are 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
- are 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.

Other non-GAAP measures used by management

Net revenue

Tobacco & 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. However, during the current year there has been a significant increase in the level of sales of NGP products into Logista. This has resulted in significant increases in the level of associated inventory as a proportion of sales. In order to avoid a distortion in the reported Tobacco & NGP revenue figure the calculation has been adjusted to reflect a normalised level of inventory.

Distribution fees

Distribution fees 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.

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.

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.

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.

New accounting standards and interpretations

With effect from 1 October 2019, the Group has adopted IFRS 16 Leases to contracts which are, or contain, leases of assets. There have been no other new standards or amendments which became effective for the current reporting period that have had a material effect on the Group.

IFRS 16 'Leases'

IFRS 16 replaced IAS 17 'Leases'. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on their balance sheets as lease liabilities with corresponding right of use assets. Lease costs are recognised in the income statement as depreciation and interest, rather than entirely as an operating cost.

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. There was no restatement of prior periods.

Impact of IFRS 16 'Leases'

The impact on adoption of IFRS 16 to the Group's balance sheet at 1 October 2019 was the recognition of £327 million right of use assets, a reduction in lease prepayments of £1 million, and lease liabilities included within borrowings of £326 million. There was no impact on retained earnings.

£ million	As reported at 30 September 2019	IFRS 16 Adjustment	On adoption at 1 October 2019
Right of use assets	–	327	327
Current assets			
Trade and other receivables	**2,993**	(1)	2,992
Current liabilities			
Borrowings	**(1,937)**	(65)	(2,002)
Non-current liabilities			
Borrowings	**(11,697)**	(261)	(11,958)
Other net assets	**16,225**	–	16,225
Net assets	**5,584**	**–**	**5,584**

The Group has lease contracts relating to property and other (which predominantly relates to motor vehicles). Before the adoption of IFRS 16, the Group, as lessee, classified each of its leases at the inception date as either a finance lease or an operating lease. All leases within the Group were previously classified as operating leases; no finance leases were held. In prior periods, for the operating leases, the leased assets were not capitalised and the lease payments were recognised either in the cost of sales or distribution, advertising and selling costs line items of the consolidated income statement on a straight-line basis over the lease term. Upon adoption of IFRS 16, the Group, as a lessee, applied a single recognition and measurement approach for all leases, except for short term leases, low value assets and other elections mentioned below in the practical expedients section. The Group recognised lease liabilities for future lease payments and right of use assets which represented the right of use of the underlying leased assets.

The impact of IFRS 16 to the Group results for the year ending 30 September 2020 increased depreciation by £72 million relating to the depreciation on the new right of use assets and increased finance costs by £7 million relating to the interest expense on the lease liabilities recognised. Lease expense recognised in the cost of sales and distribution, advertising and selling costs expenses line items in the consolidated income statement reduced by approximately £72 million. There was no overall impact to cash outflows from operating activities and cash outflows from financing activities increased by £7 million.

The Group's new accounting policies upon adoption of IFRS 16 are detailed below. The weighted average incremental borrowing rate applied in discounting lease commitments was 2.1%.

Right of use assets

The Group recognises right of use assets, within property, plant and equipment, 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.

In addition, on initial application, 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

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.

Reconciliation between minimum lease commitments as at 30 September 2019:

£ million unless otherwise indicated	
Minimum lease commitments at 30 September 2019	(351)
Additional commitments on the exercise of options	(40)
Low value leases and short-term leases excluded	20
Discounted to present value	45
Capitalised as lease liabilities at 1 October 2019	(326)
Prepaid leases reclassified from receivables	(1)
Capitalised as right of use assets at 1 October 2019	327

IFRIC 23 'Uncertainty over Income Tax Treatments'

IFRIC 23 'Uncertainty over income tax treatments' was adopted on 1 October 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The adoption of this interpretation has not had a material effect on the Group's net assets or results.

New accounting standards and interpretations not yet in issue

A number of the current net investment hedges held by the Group are potentially impacted by the impending reforms to the calculation of the Interbank Offered Rates (IBOR). The amendments to IFRS 9, IAS 39 and IAS 7 – Interest Rate Benchmark Reform, effective for the year commencing 1 October 2020, give relief which will allow these hedges to continue to be treated as effective, with no changes to the hedged positions.

Following the announcement of the potential discontinuation of LIBOR after the end of 2021, the Company has commenced an evaluation of the valuation of its floating rate debt and derivative positions maturing after that date. The evaluation project is ongoing and has not yet concluded. The Company currently expects that an appropriate alternative basis for the calculation of interest will be available in the event LIBOR is no longer used.

There are no other standards or interpretations, issued not effective, that are expected to have a material effect on the Group's net assets or results.

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.

Intangible assets

Judgements typically include determining both the existence and valuation of these type of assets when they are acquired, particularly where they arise as part of a business acquisition. Assets are only recognised when it is judged that the Group has a beneficial right to the use of the assets as guided by applicable Accounting Standards. The valuation of these assets requires estimates of initial current and future carrying values. Estimation is also required in the assessment of the future life of these assets.

Determination of useful economic life

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 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.

Amortisation and impairment

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 cashflows. 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 that 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 specifically in respect of three of the four US states that are not parties to the Master Settlement Agreement (MSA) are likely to succeed, 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.

Inventory provisions

Provisions for excess or slow-moving inventory are calculated with reference to the levels of inventory carried, the expected useful life of the product and forecast future product sales. In the year, the slow-moving NGP inventory provision increased to £86 million (2019: £34 million) with an in year charge of £97 million being offset partially by provision utilisation of £45 million. This charge is calculated using expected product ageing and future sell-out rates as the key assumptions for this judgement. Sell-out rates, which are judgemental, take into account the impact of planned trade promotions and pricing decisions, which in turn influence the level of inventory usage. Ageing takes into account expected product shelf life and any other factors which may result in the product not being sold, such as packaging or regulatory changes. The current estimate fully reflects the changes to the US regulatory environment. The provision has been estimated with the assumption that there will be no increase to current sell-out rates for this category. The provision would increase to £104 million (2019: £57 million) if no growth was applied to future sell-out rates for this category.

A further inventory provision for tobacco products has been created for COVID-19 related inventory risks where stock levels were increased to mitigate supply constraints.

Assets held for sale

On 30 April 2019 the Group announced its intention to sell the Premium Cigar Division. Judgement has been required as to whether the disposal process has advanced sufficiently to meet the requirements of IFRS 5 and therefore the assets presented as assets held for sale. As at 30 September 2020 these assets have been judged to meet the criteria and have been presented accordingly. See note 11 for further details.

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 and Canada.

AAA – Australia, Japan, Russia, Saudi Arabia, Taiwan and our African markets including Algeria and Morocco (also includes Premium Cigar, which is run as a separate business within AAA. Premium Cigar primarily manufacturers within the AAA geography but does make sales in countries outside of this area).

Tobacco & NGP

£ million unless otherwise indicated	2020	Restated 2019
Revenue	**23,973**	23,418
Net revenue	**7,985**	7,991
Operating profit	**2,587**	2,074
Adjusted operating profit	**3,288**	3,521
Adjusted operating margin %	**41.2**	44.1

Distribution

£ million unless otherwise indicated	2020	2019
Revenue	**9,268**	8,969
Net revenue	**1,015**	1,015
Operating profit	**131**	137
Adjusted operating profit	**226**	232
Adjusted operating margin %	**22.3**	22.9

Revenue

£ million	2020 Total revenue	2020 External revenue	2019 Total revenue	2019 External revenue
Tobacco & NGP				
Europe	**14,395**	**13,716**	14,152	13,359
Americas	**3,371**	**3,371**	3,358	3,358
Africa, Asia & Australasia	**6,207**	**6,207**	5,908	5,908
Total Tobacco & NGP	**23,973**	**23,294**	23,418	22,625
Distribution	**9,268**	**9,268**	8,969	8,969
Eliminations	**(679)**	**–**	(793)	–
Total Group	**32,562**	**32,562**	31,594	31,594

Reconciliation from Tobacco & NGP revenue to Tobacco & NGP net revenue

£ million	2020	Restated 2019
Revenue	**23,973**	23,418
Duty and similar items	**(15,962)**	(15,394)
Sale of peripheral products	**(26)**	(26)
Sale of intellectual property income	**–**	(7)
Net Revenue	**7,985**	7,991

Tobacco & NGP net revenue

£ million	2020	Restated 2019
Europe	**3,569**	3,633
Americas	**2,480**	2,469
Africa, Asia & Australasia	**1,936**	1,889
Total Tobacco & NGP	**7,985**	7,991

Adjusted operating profit and reconciliation to profit before tax

£ million unless otherwise indicated	2020	Restated 2019
Tobacco & NGP		
Europe	**1,582**	1,694
Americas	**1,032**	1,064
Africa, Asia & Australasia	**674**	763
Total Tobacco & NGP	**3,288**	3,521
Distribution	**226**	232
Eliminations	**13**	(14)
Adjusted operating profit	**3,527**	3,739
Acquisition and disposal costs – Tobacco & NGP	**(26)**	(22)
Amortisation and impairment of acquired intangibles – Tobacco & NGP	**(438)**	(1,033)
Amortisation of acquired intangibles – Distribution	**(85)**	(85)
Excise tax provision – Tobacco & NGP	**20**	(139)
Fair value adjustment of acquisition consideration – Tobacco & NGP	**–**	(129)
Fair value adjustment of loan receivable	**(62)**	3
Sale of intellectual property income	**–**	7
Restructuring costs	**(205)**	(144)
Operating profit	**2,731**	2,197
Net finance costs	**(610)**	(562)
Share of profit of investments accounted for using the equity method	**45**	55
Profit before tax	**2,166**	1,690

See note 8 for details of the excise tax provision and note 5 for the fair value adjustment of acquisition consideration. See notes 11 and 12 for details on amortisation and impairment, note 11 for details of acquisition and disposal costs, and note 5 for details of restructuring costs.

The Group has adopted a new treatment of adjusted performance measures which has had the impact of removing a fair value adjustment on loan receivables and sale of intellectual property income as an adjusting item. To create a more understandable year on year comparison the change has been made with effect from 1 October 2019 and therefore the fair value gain on the same instrument has been restated in the 2019 comparative.

Other information

£ million	2020 Additions to property, plant and equipment	2020 Depreciation and software amortisation	2019 Additions to property, plant and equipment	2019 Depreciation and software amortisation
Tobacco & NGP				
Europe	**77**	**101**	156	93
Americas	**30**	**31**	48	33
Africa, Asia & Australasia	**46**	**34**	60	39
Total Tobacco & NGP	**153**	**166**	264	165
Distribution	**21**	**36**	36	35
Total Group	**174**	**202**	300	200

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 160 countries.

£ million	2020 External revenue	2020 Non-current assets	2019 External revenue	2019 Non-current assets
UK	**4,498**	**104**	3,939	110
Germany	**4,637**	**3,465**	3,675	3,383
France	**3,772**	**2,564**	3,599	2,532
USA	**3,575**	**6,143**	3,427	7,061
Other	**16,080**	**7,900**	16,954	7,570
Total Group	**32,562**	**20,176**	31,594	20,656

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 unless otherwise indicated	2020	2019
Raw materials and consumables used	**947**	964
Changes in inventories of finished goods – Tobacco & NGP	**2,781**	2,679
Changes in inventories of finished goods – Distribution	**6,798**	6,180
Depreciation and impairment of fixed assets	**205**	183
Amortisation and impairment of intangible assets	**628**	1,162
Acquisition and disposal costs	**26**	22
Expenses relating to short-term leases	**4**	–
Expenses relating to low value asset leases	**2**	–
Depreciation of right of use assets	**72**	–
Operating lease charges	**–**	53
Net foreign exchange losses/(gains)	**258**	(68)
Write down of inventories	**126**	52
Profit on disposal of non-current assets	**(2)**	(19)
Impairment of trade receivables	**44**	9

Analysis of fees payable to Ernst & Young LLP and its associates 2020 & PricewaterhouseCoopers LLP and its associates 2019

£ million unless otherwise indicated	2020	2019
Audit of Parent Company and consolidated financial statements	**1.9**	2.0
Audit of the Company's subsidiaries	**4.7**	4.4
Audit of joint venture entities	**–**	0.4
Audit related assurance services	**0.4**	0.8
	7.0	7.6
Other services	**0.2**	0.2
	7.2	7.8

Ernst & Young LLP was appointed the Group's auditor for the year ended 30 September 2020. Accordingly, comparative figures in the table above for the year ended 30 September 2019 are in respect of remuneration paid to Group's previous auditor, PricewaterhouseCoopers LLP and other member firms of PricewaterhouseCoopers International.

In 2020, PwC provided services to Logista relating to preparation of their consolidation financial statements amounting to £0.2 million.

5. RESTRUCTURING COSTS

£ million unless otherwise indicated	2020	2019
Employment related	**103**	96
Asset impairments	**58**	29
Other charges	**44**	19
	205	144

Restructuring costs analysed by workstream:

£ million unless otherwise indicated	2020	2019
Cost optimisation programme	**187**	144
Other restructuring activities	**18**	–
	205	144

The cost optimisation programme (Phase I announced in 2013 and Phase II announced in November 2016) is part of the Group's change in the current strategic direction to achieve a unique, non-recurring and fundamental transformation of the business. The costs of factory closures and implementation of a standardised operating model are considered to be one off as they are a permanent scaling down of capacity and a once in a generation transformational change respectively. The cost optimisation programme is due to complete in 2021.

Costs of implementing cost savings that do not arise from the change in the current strategic direction are excluded from restructuring costs.

The charge for the year of £205 million (2019: £144 million) predominantly relates to our two cost optimisation programmes announced in 2013 and 2016.

In 2020 the cash cost of Phase I of the programme was £16 million (2019: £24 million) and £107 million (2019: £108 million) for Phase II, bringing the cumulative net cash cost of the programme to £1,066 million (Phase I £559 million, Phase II £507 million).

Cost optimisation programme Phase I is expected to have a cash implementation cost in the region of £600 million in respect of the savings of £300 million per annum that the programme has generated by 2018 , and Phase II is expected to have a cash implementation cost in the region of £650 million, generating savings of a further £305 million per annum by 2021.

The total restructuring cash spend in the year was £145 million (2019: £146 million).

Restructuring costs are included within administrative and other expenses in the consolidated income statement.

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 with 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. Cost optimisation programme Phase 1 completed in 2018 and Phase 2 is due to complete in 2021.

6. ALTERNATIVE PERFORMANCE MEASURES

Reconciliation from operating profit to adjusted operating profit

£ million unless otherwise indicated	Notes	2020	2019
Operating profit		**2,731**	2,197
Acquisition and disposal costs	11	**26**	22
Amortisation and impairment of acquired intangibles	11 / 12 / 15	**523**	1,118
Excise tax provision		**(20)**	139
Fair value adjustment of loan receivable	21	**62**	(3)
Sale of intellectual property income		**–**	(7)
Fair value adjustment of acquisition consideration	12	**–**	129
Restructuring costs	5	**205**	144
Adjusted operating profit		**3,527**	3,739

Amortisation and impairment of acquired intangibles, acquisition and disposal costs and restructuring costs are discussed in further detail in the above referenced notes.

The Group has adopted a new treatment of adjusted performance measures which has had the impact of removing a fair value adjustment on loan receivables and sale of intellectual property income as an adjusting item. To create a more understandable year on year comparison the change has been made with effect from 1 October 2019 and therefore the fair value gain on the same instrument has been restated in the 2019 comparative.

Reconciliation from reported net finance costs to adjusted net finance costs

£ million	2020	2019
Reported net finance costs	**610**	562
Fair value gains on derivative financial instruments	**661**	665
Fair value losses on derivative financial instruments	**(581)**	(839)
Exchange (gains)/losses on financing activities	**(256)**	67
Net fair value and exchange losses on financial instruments	**(176)**	(107)
Interest income on net defined benefit assets	**99**	142
Interest cost on net defined benefit liabilities	**(104)**	(147)
Post-employment benefits net financing cost	**(5)**	(5)
Adjusted net finance costs	**429**	450
Comprising		
Interest on bank deposits	**(10)**	(16)
Interest on lease liabilities	**7**	–
Interest on bank and other loans	**432**	466
Adjusted net finance costs	**429**	450

Cash conversion calculation

£ million	2020	2019
Net cash flow from operating activities	**4,030**	3,236
Tax	**568**	522
Net capital expenditure	**(274)**	(352)
Restructuring spend	**145**	146
Cash flow post capital expenditure pre interest and tax	**4,469**	3,552
Adjusted operating profit	**3,527**	3,739
Cash conversion	**127%**	95%

7. DIRECTORS AND EMPLOYEES

Employment costs

£ million	2020	2019
Wages and salaries	**812**	826
Social security costs	**184**	178
Other pension costs (note 24)	**68**	81
Share-based payments (note 27)	**20**	23
	1,084	1,108

Operating Executive (excluding Executive Directors)

£ million	2020	2019
Base salary	**2.0**	2.8
Benefits	**–**	0.2
Pension salary supplement	**–**	0.4
Bonus	**1.6**	1.8
Termination payments	**–**	1.4
LTIP annual vesting[1]	**–**	–
SMS annual vesting[1]	**0.1**	0.5
	3.7	7.1

1. Share plans vesting represent the value of SMS and LTIP 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 £18.2500.

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 £9,239,049 (2019: £14,473,806).

Key management compensation[1]

£ million	2020	2019
Short term employee benefits	9.2	10.6
Post-employment benefits	2.0	1.5
Other long-term benefits	–	–
Termination payments	–	–
Share based payments (in accordance with IAS 24)	0.2	2.4
	11.4	14.5

1. Key management includes Directors, members of the OPEX 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 96-123, 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

	2020		2019	
£ million	At 30 September	Average	At 30 September	Average
Tobacco & NGP	26,300	25,900	26,400	26,000
Distribution	6,200	6,200	6,300	6,300
	32,500	32,100	32,700	32,300

Number of people employed by the Group by location during the year

	2020		2019	
£ million	At 30 September	Average	At 30 September	Average
European Union	14,900	15,100	15,600	15,500
Americas	8,900	8,400	8,400	8,200
Rest of the World	8,700	8,600	8,700	8,600
	32,500	32,100	32,700	32,300

8. TAX

The Group has reclassified certain current tax assets and liabilities on the balance sheet which were previously stated gross, but which in line with IAS 12 'Income Taxes' shall be stated net where there is a legally enforceable right of offset.

The major components of income tax expense for the years ended 30 September 2020 and 2019 are:

£ million	2020	2019
UK current tax		
Current year	97	79
Adjustments in respect of prior years	26	22
Overseas current tax		
Current year	458	454
Adjustments in respect of prior years	12	(34)
Total current tax	593	521
Deferred tax		
Relating to origination and reversal of temporary differences	15	88
Total tax charged to the consolidated income statement	608	609

£ million	2020	2019
Tax related to items recognised in consolidated other comprehensive income during the year:		
Current tax on hedge of net investment	(10)	–
Deferred tax on hedge of net investment	(80)	–
Deferred tax on actuarial gains and losses	53	(52)
Total tax charged to consolidated other comprehensive income	(37)	(52)

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	2020	2019
Reported tax	**608**	609
Deferred tax on amortisation of acquired intangibles	**57**	9
Current tax on excise tax provision	**(4)**	15
Tax on net fair value gains and losses on financial instruments	**(63)**	31
Tax on post-employment benefits net financing cost	**1**	4
Tax on restructuring costs	**31**	35
Tax on disposal of Premium Cigar Division	**(19)**	–
Previously unrecognised tax credits	**67**	–
Uncertain tax positions	**(77)**	–
Tax on unrecognised losses	**41**	(61)
Adjusted tax charge	**642**	642

The use of adjusted measures is explained in note 1, Accounting Policies (Use of Adjusted 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 (2019: 19.0 per cent) as follows:

£ million	2020	Reclassified 2019
Profit before tax	**2,166**	1,690
Tax at the UK corporation tax rate of 19.0% (2019: 19.0%)	**411**	321
Tax effects of:		
Differences in effective tax rates on overseas earnings	**100**	(45)
Movement in provision for uncertain tax positions	**61**	16
Remeasurement of deferred tax balances arising from changes in tax rates	**9**	–
Remeasurement of deferred tax assets – derecognition/(recognition)	**(81)**	38
Increase in previously unrecognised deferred tax assets	**30**	49
Deferred tax on unremitted earnings	**(19)**	15
Share of profit of investments accounted for using the equity method	**(8)**	(10)
Permanent differences	**76**	232
Adjustments in respect of prior years	**29**	(7)
Total tax charged to the consolidated income statement	**608**	609

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.

Remeasurement of deferred tax assets includes £18 million recognition (2019: £35 million de-recognition) in relation to deferred tax assets for tax losses in the Group's Dutch business, £15 million recognition (2019: nil) in relation to deferred tax assets for tax credits and losses in the Group's Spanish business and £45 million recognition (2019: nil) 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 £9 million (2019: nil).

During the year the Group has decreased the provision for deferred tax on unremitted earnings by £19 million (2019: £15 million increase). The tax will arise on the distribution of profits through the Group and on planned Group simplification.

Permanent differences include £80 million (2019: £4 million) in respect of non-deductible exchange losses/(non-taxable exchange gains), £nil (2019: £32 million) in respect of non-deductible contingent consideration and £nil (2019: £147 million) in respect of an impairment of goodwill and equity investments in the Premium Cigar Division.

Movement on the current tax account

£ million	2020	2019
At 1 October	**(118)**	(122)
Charged to the consolidated income statement	**(593)**	(521)
Credited to other comprehensive income	**10**	–
Credited to equity	**1**	1
Cash paid	**568**	522
Exchange movements	**(13)**	3
Other movements	**1**	(1)
At 30 September	**(144)**	(118)

The cash tax paid in the year is £25 million lower than the current tax charge (2019: £1 million higher). 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	2020	Reclassified 2019
Current tax assets	**206**	195
Current tax liabilities	**(350)**	(313)
	(144)	(118)

The Group has reclassified certain current tax assets and liabilities on the balance sheet which were previously stated gross, but which in line with IAS 12 'Income Taxes' shall be stated net where there is a legally enforceable right of offset.

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 2020 the total value of these provisions, including foreign exchange movements, was £273 million (2019: £204 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 £248 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra-group 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 (£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. Given there are no substantive developments in the case it is appropriate to maintain the £44 million (2019: £42 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. Although the Group believes that it has no liability in respect of this issue, under a range of different interpretations of the EU Commission's decision the Group has previously disclosed that preliminary calculations indicated a range of potential liabilities depending on the basis of calculation of up to £300 million.

In December 2019 HMRC issued guidance on the quantification of any potential State Aid, and subsequently requested the Group, in line with other corporates, submit an assessment of potential State Aid. Whilst the Group's position remains that no State Aid has been received, based on its submission to HMRC a potential liability of c. £100 million was reported. Based on HMRC accepting our assessment, it is expected they will seek recovery of the £100 million. On the basis the Group believes no State Aid arises, no provision has been made at this time. If payment is required, based on current advice a receivable in the same amount would be recorded. Interest would be chargeable on any recovery.

Based upon current advice the Group does not consider any provision is required in relation to any other EU State Aid investigation.

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 £800 million (2019: £530 million). The Group holds a provision of £207 million (2019: £155 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. On 25 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. If the transfer pricing discussions are not concluded by end of December 2020, HMRC will issue a final DPT notice, which the Group will be required to pay within 30 days. On conclusion of the transfer pricing discussions, an appropriate refund would be anticipated. Whilst the issues discussed affects all subsequent periods, no further DPT notices are anticipated.

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	2020	2019	2018
Paid interim of 41.70 pence per share (2019: 62.56 pence, 2018: 122.33 pence)			
• Paid June 2018	**–**	–	271
• Paid September 2018	**–**	–	271
• Paid December 2018	**–**	–	624
• Paid June 2019	**–**	298	–
• Paid September 2019	**–**	298	–
• Paid December 2019	**–**	679	–
• Paid June 2020	**197**	–	–
• Paid September 2020	**197**	–	–
Interim dividend paid	**394**	1,275	1,166
Proposed interim of 48.00 pence per share (2019: 72.00 pence, 2018: nil)			
• To be paid December 2020	**453**	–	–
Interim dividend proposed	**453**	–	–
Proposed final of 48.01 pence per share (2019: 72.01 pence, 2018: 65.46 pence)			
• Paid March 2019	**–**	–	624
• Paid March 2020	**–**	680	–
• To be paid March 2021	**454**	–	–
Final dividend	**454**	680	624
Total ordinary share dividends of 137.71 pence per share (2019: 206.57 pence, 2018: 187.79 pence)	**1,301**	1,955	1,790

The third interim dividend for the year ended 30 September 2020 of 48.00 pence per share amounts to a proposed dividend of £453 million, which will be paid in December 2020.

The proposed final dividend for the year ended 30 September 2020 of 48.01 pence per share amounts to a proposed dividend payment of £454 million in March 2021 based on the number of shares ranking for dividend at 30 September 2020, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2020 will be £1,301 million (2019: £1,955 million). The dividend paid during 2020 is £1,753 million (2019: £1,844 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	2020	2019
Earnings: basic and diluted – attributable to owners of the Parent Company	**1,495**	1,010

Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	**944.4**	953.0
Potentially dilutive share options	**1.4**	1.9
Shares for diluted earnings per share	**945.8**	954.9

Pence		
Basic earnings per share	**158.3**	106.0
Diluted earnings per share	**158.1**	105.8

Reconciliation from reported to adjusted earnings and earnings per share

	2020		2019	
£ million unless otherwise indicated	Earnings per share (pence)	Earnings	Earnings per share (pence)	Earnings
Reported basic	**158.3**	**1,495**	106.0	1,010
Acquisition and disposal costs	**2.8**	**26**	2.3	22
Amortisation and impairment of acquired intangibles	**49.2**	**466**	116.4	1,109
Excise tax provision	**(1.7)**	**(16)**	13.0	124
Fair value adjustment of loan receivable	**6.6**	**62**	(0.3)	(3)
Sale of intellectual property income	**–**	**–**	(0.7)	(7)
Fair value adjustment of acquisition consideration	**–**	**–**	13.5	129
Net fair value and exchange movements on financial instruments	**25.3**	**239**	8.0	76
Post-employment benefits net financing cost	**0.4**	**4**	0.1	1
Restructuring costs	**18.4**	**174**	11.4	109
Tax on disposal of Premium Cigar Division	**2.0**	**19**	–	–
Previously unrecognised tax credits	**(7.1)**	**(67)**	–	–
Uncertain tax positions	**8.2**	**77**	–	–
Tax on unrecognised losses	**(4.3)**	**(41)**	6.4	61
Adjustments above attributable to non-controlling interests	**(3.7)**	**(35)**	(3.8)	(36)
Adjusted	**254.4**	**2,403**	272.3	2,595
Adjusted diluted	**254.1**	**2,403**	271.8	2,595

From the 1 October 2020 the Group has adopted a new treatment of adjusted performance measures which has had the impact of removing a fair value loss on loan receivables as an adjusting item. To create a more understandable year on year comparison the fair value gain on the same instrument has been restated in the 2019 comparative.

11. ASSETS HELD FOR SALE

On 30 April 2019 the Group announced its intention to sell the Premium Cigar Division ("the Division") and at 30 September 2019 the Group presented the assets and liabilities of the business as held for sale. On 27 April 2020 the Group announced that it had agreed the sale of the Division. The total actual cash flows received and currently expected to be received total €1,198 million, a slight reduction from the €1,225 million previously announced due to the true up of cross perimeter inter company loans and other small customary closing adjustments. A non-refundable deposit of €92 million was received on 28 September 2020 and a further non-refundable deposit of €86 million was received on 6 October 2020. The share sale element of the sale of the Division completed on 29 October 2020 and €607 million was received on that date including the impact of a true up in respect of cross perimeter inter company loan balances. An additional €256 million is due to be received on 29 April 2021 and a further €88 million is due to be received on 29 October 2021. The sale of the La Romana factory in the Dominican Republic is due to complete in the first half of our 2022 financial year when it is expected that €69 million will be received subject to a true up in respect of inventory values.

Although the period which the Group has classified these assets as 'held for sale' exceeded 1 year, the Group completed the sale on 29 October 2020 and therefore the IFRS 5 criteria for an asset held for sale presentation continue to be met as at 30 September 2020.

Carrying value of asset held for sale

When the Premium Cigar Division was reclassified as held for disposal at 30 September 2019 an impairment test was undertaken, and an impairment was identified with net assets being written down to their estimated recoverable amount on a fair value less costs of sale basis. The test involved an assessment of the level of proceeds expected to be achieved on completion of the disposal, less transaction tax and costs with a comparison of this figure to the carrying value of the net assets. Since bid offers are an observable input not based on a quoted price the fair value is based on a level 2 valuation under IFRS 13.

At 27 April 2020, the sale was agreed giving certainty as to the actual level of sale proceeds expected to be achieved and this amount was a decrease on the previous estimate. For the year ended 30 September 2020 foreign exchange losses arising on the retranslation of the carrying value associated assets, net of impairment provisions of £23 million were recognised within the foreign change reserve account and a net profit of £11 million was recognised in the income statement as a result of impairment provision reversals due to changes in the estimated amount of the sale consideration offset by foreign exchange gains. (2019: £500 million impairment charge).

The cumulative impairments recognised have been used to fully write down the carrying value of goodwill and have then been allocated pro-rata against other non-current assets, within the current assets held for disposal category on the balance sheet. The net assets relating to the La Romana site were transferred from assets held for sale at 31 March 2020 and recognised elsewhere within the balance sheet due to the deferral of its sale completion date. This comprised assets of £43 million being £38 million of inventory, £3 million of property, plant and equipment, and £2 million of other assets. In addition £10 million of payables related to La Romana were also transferred out of assets held for sale. Total net assets held for disposal are now £1,024 million, comprised of £979 million for the purchase consideration and £45 million for the repayment of net amounts due to Imperial group undertakings.

2019 comparatives have been restated due to the sale of the Premium Cigar business. Please see note 1 for more detail.

Profits arising on disposal

As the disposal completed after the balance sheet date it is treated as a non-adjusting post balance sheet event. The profit on disposal will be recognised in the 2021 financial year. The profit arising on disposal will be calculated factoring in the recycling of foreign exchange gains previously recorded in reserves and any variation between the asset held for sale carrying value and sale proceeds, net of tax and disposal costs. We currently estimate the cumulative foreign exchange gains at 30 September 2020 to be in the region of £250 million – £350 million.

The assets and liabilities classified as held for disposal are as follows:

£ million	2020	2019
Non-current assets		
Intangible assets	**101**	138
Property, plant and equipment	**17**	26
Investments accounted for using the equity method	**584**	574
Trade and other receivables	**35**	52
Right of use leased assets	**7**	–
Deferred tax assets	**10**	11
	754	801
Current assets		
Inventories	**166**	228
Trade and other receivables	**67**	60
Cash and cash equivalents	**75**	14
	308	302
Total assets	**1,062**	1,103
Current liabilities		
Trade and other payables	**(35)**	(33)
Provisions	**(3)**	(4)
	(38)	(37)
Total liabilities	**(38)**	(37)
Net assets	**1,024**	1,066

12. INTANGIBLE ASSETS

£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
					2020
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 from 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[1]	**–**	**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**

1. Amortisation of acquired intangibles excluded from adjusted operating profit comprises amortisation on intellectual property of £466 million (2019: £515 million), impairment on intellectual property of £14 million (2019: £8 million) and amortisation on supply agreements of £85 million (2019: £85 million). An adjustment is made for impairment on internally generated intellectual property of £15 million (2019: £10 million).

£ million	Goodwill	Intellectual property and product development	Supply agreements	Software	Total
					2019
Cost					
At 1 October 2018	14,040	12,701	1,421	378	28,540
Additions	31	66	2	52	151
Disposals	–	(1)	–	(15)	(16)
Reclassifications	–	–	(2)	4	2
Transferred from held for disposal (note 11)	–	(136)	(2)	–	(138)
Exchange movements	161	391	4	2	558
At 30 September 2019	14,232	13,021	1,423	421	29,097
Amortisation and impairment					
At 1 October 2018	1,577	6,472	1,131	243	9,423
Amortisation charge for the year[1]	–	515	85	34	634
Impairment	273	18	–	–	291
Disposals	–	(1)	–	(13)	(14)
Exchange movements	(3)	165	4	1	167
Accumulated amortisation	–	6,777	1,220	265	8,262
Accumulated impairment	1,847	392	–	–	2,239
At 30 September 2019	1,847	7,169	1,220	265	10,501
Net book value					
At 30 September 2019	12,385	5,852	203	156	18,596

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.

Acquisitions

For each acquisition, an exercise to value the net assets and apportion the consideration has taken place and the values have been recognised in the year end accounts. We engaged external consultants to assist in the valuation of the intangible assets, which make up the most significant element of the assets acquired and have been valued using the income method.

Adjustments to provisional fair values are made up to 12 months from the original acquisition date with any revisions to contingent consideration or asset values being adjusted through goodwill. Goodwill represents the value of the accumulated workforces and synergies expected to be realised following the acquisition.

Von Erl

On 14 June 2017 Imperial's subsidiary, Fontem Ventures B.V., completed the acquisition of 50 per cent plus one share of Von Erl Gmbh for an initial cash consideration of £17 million plus an estimated contingent consideration of £15 million payable on performance measures being achieved. In August 2018 and August 2019 total payments of £20 million were made to purchase an additional share capital, taking the total shareholding to 70 per cent. On 2 October 2019 a final agreement to pay £123 million was made to purchase the remaining equity in Von Erl, making it a fully owned subsidiary.

Nerudia

On 23 October 2017, the Group acquired 100 per cent of the share capital of Nerudia Limited for an estimated total cash consideration of £86 million, comprised of an initial consideration of £64 million plus an estimated contingent consideration of £22 million. This contingent consideration was paid in November 2019.

The remaining contingent consideration of £20 million for the purchase of Nerudia is determined by the meeting of certain related pre-conditions. The assessment of these pre-conditions to payment is ongoing with the likely outcome that they have not been met.

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	2020 Goodwill	2020 Intangible assets with indefinite lives	2019 Goodwill	2019 Intangible assets with indefinite lives
Europe	**4,645**	**353**	4,602	342
Americas	**4,265**	**–**	4,225	–
Africa, Asia & Australasia	**1,836**	**140**	1,819	136
Tobacco & NGP	**10,746**	**493**	10,646	478
Distribution	**1,794**	**–**	1,739	–
	12,540	**493**	12,385	478

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.

An impairment of £13 million was recognised after Fontem Canada Limited ceased trading.

Growth rates and discount rates used

The compound annual growth rates implicit in these value-in-use calculations are shown below.

%	2020 Pre-tax discount rate	2020 Initial growth rate	2020 Long-term growth rate	2019 Pre-tax discount rate	2019 Initial growth rate	2019 Long-term growth rate
Europe	**9.6**	**2.6**	**1.0**	9.6	1.1	0.2
Americas	**8.8**	**1.3**	**1.9**	8.9	3.9	2.5
Africa, Asia & Australasia	**12.9**	**0.4**	**2.1**	10.3	1.6	0.1
Distribution	**13.0**	**0.8**	**1.6**	9.3	2.5	1.6

Cash flows from the business plan period are used for year 1 and 2, then extrapolated out to year five using the implicit growth rate, shown in the table above as the initial growth rate. On 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 growth. Estimated long term weighted average compound growth rates are used beyond year 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.

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 has seen an increase in initial growth rates driven by improved cashflow expectations in Year 1 and Year 2 for certain markets. Americas shows a reduced initial growth rate driven by increased product costs plus long term growth rates have been revised downward based on changes in the macroeconomic outlook. Africa, Asia & Australasia (AAA) discount rates have increased to reflect the uncertainties within the economic climate, including the impact of COVID. Initial AAA growth rates have been lowered primarily due to changes in the Australian market, where future cash flows do not benefit from the same level of margin on duty paid inventory that was achieved in FY20. The long term growth rates for AAA are based on published external data, adjusted downwards where appropriate, with adjustments for the non-Australian markets being lower this year than last. The Distribution discount rate has increased to reflect the greater uncertainties within the economic climate and the initial growth rates changes are based on revised business plan projections.

Our impairment testing confirms there are sufficient cashflows to support the current carrying values of the goodwill held at 30 September 2020. 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.

The valuation of the recoverable amount is sensitive to assumptions made as to future growth rates and the discount rates.

Other intangible assets

Other intangible assets are considered for impairment risk. The carrying values of brand intangibles are reviewed against expected future cashflows of associated products. Impairment will only be recognised where there is evidence that the carrying value of the brand cannot be recovered through those cashflows. £2 million of impairments were recognised in the period (2019: nil).

13. PROPERTY, PLANT AND EQUIPMENT

				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**

				2019
£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
Cost				
At 1 October 2018	909	2,013	432	3,354
Additions	10	226	64	300
Disposals	(7)	(80)	(36)	(123)
Reclassifications	4	15	(21)	(2)
Transferred to held for disposal (note 11)	(22)	(14)	(4)	(40)
Exchange movements	15	33	5	53
At 30 September 2019	909	2,193	440	3,542
Depreciation and impairment				
At 1 October 2018	169	1,016	278	1,463
Depreciation charge for the year	20	113	33	166
(Impairment write back)/impairment	(6)	23	–	17
Disposals	(2)	(52)	(33)	(87)
Reclassifications	2	(1)	(1)	–
Transferred to held for disposal (note 11)	(4)	(8)	(2)	(14)
Exchange movements	2	13	3	18
At 30 September 2019	181	1,104	278	1,563
Net book value				
At 30 September 2019	728	1,089	162	1,979

14. RIGHT OF USE ASSETS AND LEASE LIABILITY

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
				2020
Net book value				
At 1 October 2019 (on adoption of IFRS 16)	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

Future minimum lease payments liabilities are analysed as below:

£ million	Property	Plant and equipment	Fixtures and motor vehicles	Total
				2020
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

There were no lease liabilities held as at 30 September 2019.

For further disclosures regarding leases please see the following notes

Note 4. Profit before tax	Expenses relating to short-term leases and low value asset leases
See above Note, with ROU movement table	Depreciation expense of ROU assets
Note 6. Net finance costs	Interest on lease liabilities
Note 20. Borrowings	Maturity profile of the carrying amount of the Group's non-current lease liabilities
Note 21. Financial risk factors	Maturity profile of the undiscounted contractual cash flows of the Group's lease liabilities
Note 31. Net Debt	Movements in lease liabilities in the year

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint ventures are Corporación Habanos SA, Cuba and Altabana SL, Spain. Summarised financial information for the joint venture entities, which are accounted for by the Group under the equity method, is shown below:

£ million	Corporación Habanos	Altabana	Global Horizon Ventures	Others	Total
					2020
Revenue	188	322	10	61	581
Profit after tax	43	52	1	10	106
Non-current assets	458	27	–	11	496
Current assets	99	233	41	82	455
Total assets	557	260	41	93	951
Current liabilities	(147)	(40)	(2)	(16)	(205)
Non-current liabilities	(28)	(5)	–	(45)	(78)
Total liabilities	(175)	(45)	(2)	(61)	(283)
Net assets	382	215	39	32	668

£ million	Corporación Habanos	Altabana	Global Horizon Ventures	Others	Total
					2019
Revenue	208	329	16	69	622
Profit after tax	44	60	10	11	125
Non-current assets	482	27	24	13	546
Current assets	95	219	47	65	426
Total assets	577	246	71	78	972
Current liabilities	(132)	(60)	(3)	(42)	(237)
Non-current liabilities	(26)	(5)	–	(6)	(37)
Total liabilities	(158)	(65)	(3)	(48)	(274)
Net assets	419	181	68	30	698

Transactions and balances with joint ventures

£ million	2020	2019
Sales to	**163**	99
Purchases from	**111**	115
Accounts receivable from	**–**	54
Accounts payable to	**(24)**	(26)

Movement on investments accounted for using the equity method

£ million	2020	2019
At 1 October	**81**	845
Profit for the year from joint ventures and associates	**45**	55
Increase in investment in associates	**5**	11
Impairment of investment in joint ventures	**(1)**	(232)
Impairment of investment in associates	**–**	(5)
Dividends	**(27)**	(45)
Transferred from/(to) held for disposal (note 11)	**50**	(574)
Foreign exchange (losses)/gains	**(36)**	26
At 30 September	**117**	81

16. INVENTORIES

£ million	2020	2019
Raw materials	**1,001**	1,012
Work in progress	**74**	67
Finished inventories	**2,781**	2,829
Other inventories	**209**	174
	4,065	4,082

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £2,781 million (2019: £2,829 million) there is excise duty of £1,312 million (2019: £1,406 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 £179 million (2019: £156 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	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Trade receivables	**2,410**	**4**	2,599	5
Less: loss allowance	**(112)**	**(4)**	(72)	(5)
Net trade receivables	**2,298**	**–**	2,527	–
Other receivables	**178**	**48**	176	108
Prepayments	**162**	**9**	151	11
	2,638	**57**	2,854	119

2019 comparatives have been restated due to the sale of the Premium Cigar business. Please see note 1 for more detail.

Trade receivables may be analysed as follows:

£ million	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Within credit terms	**2,138**	**–**	2,363	–
Past due by less than 3 months	**77**	**–**	100	–
Past due by more than 3 months	**83**	**–**	64	–
Amounts that are impaired	**112**	**4**	72	5
	2,410	**4**	2,599	5

The movements in the total loss allowance for receivables are analysed as follows:

£ million	2020	2019
At 1 October previously stated	**77**	66
IFRS 9 Transition	**–**	5
At 1 October restated	**77**	71
Net increase in provision	**39**	6
At 30 September	**116**	77

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	2020	2019
Cash at bank and in hand	**791**	835
Short-term deposits and other liquid assets	**835**	1,451
	1,626	2,286

£154 million (2019: £176 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.

19. TRADE AND OTHER PAYABLES

£ million	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Trade payables	**1,191**	**–**	1,775	–
Duties payable	**6,129**	**–**	4,919	–
Other taxes and social security contributions	**1,603**	**–**	1,358	–
Other payables	**464**	**–**	400	–
Accruals	**783**	**5**	900	7
	10,170	**5**	9,352	7

2019 comparatives have been restated due to the sale of the Premium Cigar business. Please see note 1 for more detail.

20. BORROWINGS

The Group's borrowings held at amortised cost, are as follows.

£ million	2020	2019
Current borrowings		
Bank loans and overdrafts	**61**	46
Capital market issuance:		
European commercial paper (ECP)	**–**	177
€750m 5.0% notes due December 2019	**–**	692
$1,250m 2.95% notes due July 2020	**–**	1,022
€1,000m 2.25% notes due February 2021	**925**	–
€500m 0.5% notes due July 2021	**456**	–
Total current borrowings	**1,442**	1,937
Non-current borrowings		
Bank loans	**1**	–
Capital market issuance:		
€1,000m 2.25% notes due February 2021	**–**	897
€500m 0.5% notes due July 2021	**–**	443
£1,000m 9.0% notes due February 2022	**1,056**	1,055
$1,250m 3.75% notes due July 2022	**980**	1,023
$1,000m 3.5% notes due February 2023	**782**	815
€750m 1.25% notes due August 2023	**684**	664
£600m 8.125% notes due March 2024	**626**	626
$1,000m 3.125% notes due July 2024	**782**	816
€500m 1.375% notes due January 2025	**460**	446
$1,500m 4.25% notes due July 2025	**1,172**	1,222
€650m 3.375% notes due February 2026	**604**	587
$750m 3.5% notes due July 2026	**586**	612
£500m 5.5% notes due September 2026	**500**	500
€750m 2.125% notes due February 2027	**692**	671
$1,000m 3.875% notes due July 2029	**781**	816
£500m 4.875% notes due June 2032	**504**	504
Total non-current borrowings	**10,210**	11,697
Total borrowings	**11,652**	13,634
Analysed as:		
Capital market issuance	**11,590**	13,588
Bank loans and overdrafts	**62**	46

Current and non-current borrowings include interest payable of £13 million (2019: £33 million) and £151 million (2019: £164 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 2 December 2019, €750 million 5.0 per cent notes were repaid. On 21 July 2020, $1,250 million 2.95 per cent notes were repaid.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2019: no defaults).

Non-current financial liabilities

The maturity profile of the carrying amount of the Group's non-current liabilities as at 30 September 2020 (including net derivative financial instruments detailed in note 22) is as follows:

	2020				2019		
£ million	Borrowings	Lease liabilities	Net derivative financial liabilities/ (assets)	Total	Borrowings	Net derivative financial liabilities/ (assets)	Total
Amounts maturing:							
Between one and two years	**2,037**	**54**	**17**	**2,108**	1,340	(16)	1,324
Between two and five years	**4,506**	**106**	**(37)**	**4,575**	4,999	14	5,013
In five years or more	**3,667**	**75**	**848**	**4,590**	5,358	733	6,091
	10,210	**235**	**828**	**11,273**	11,697	731	12,428

Carrying amount of the Group's lease liabilities as at 30 September 2020 is £299 million (£64 million current liabilities and £235 million non–current liabilities). A breakdown of non-current liabilities of £235 million has been presented along with other non-current financial liabilities in the above table.

Fair value of borrowings

The fair value of borrowings as at 30 September 2020 is estimated to be £12,496 million (2019: £14,320 million). £12,434 million (2019: £14,274 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.

	2020		2019	
£ million	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	**2,686**	**3,054**	2,685	3,168
EUR	**3,821**	**3,943**	4,577	4,681
USD	**5,083**	**5,437**	6,326	6,425
Total capital market issuance	**11,590**	**12,434**	13,588	14,274

Undrawn revolving credit facilities

At 30 September the Group had the following undrawn committed facilities:

£ million	2020	2019
Amounts maturing:		
In less than one year	**–**	266
Between one and two years	**1,551**	3,011
Between two and five years	**3,193**	–
	4,744	3,277

During the year syndicated revolving credit facilities for €2,835 million and £500 million were cancelled and a new syndicated revolving credit facility for €3,500 million was arranged.

During the year one bilateral facility for €300 million was cancelled and six new bilateral facilities for a total €1,700 million were arranged.

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:

(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 2020. 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	2020 Increase in income	2019 Increase in income
Income statement impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2019: 10%)	**544**	184
10% appreciation of US dollar (2019: 10%)	**8**	43

An equivalent depreciation in the above currencies would cause a decrease in income of £665 million and £10 million for euro and US dollar exchange rates respectively (2019: £225 million and £53 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	2020 Change in equity	2019 Change in equity
Equity impact of non-functional currency foreign exchange exposures:		
10% appreciation of euro (2019: 10%)	**405**	453
10% appreciation of US dollar (2019: 10%)	**(134)**	(47)

An equivalent depreciation in the above currencies would result in a change in equity of (£494) million and £163 million for euro and US dollar exchange rates respectively (2019: (£554) million and £57 million).

At 30 September 2020, after the effect of derivative financial instruments, approximately 70 per cent of the Group's net debt was denominated in euro and non US Dollar currencies (2019: 74 per cent), 30 per cent in US dollars (2019: 26 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 2020, after adjusting for the effect of derivative financial instruments detailed in note 20, approximately 71 per cent (2019: 63 per cent) of net debt was at fixed rates of interest and 29 per cent (2019: 37 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 2020, 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 (2019: £nil)

£ million	2020 Change in income	2019 Change in income
Income statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2019: 1%)	**28**	31
+/- 1% increase in US dollar interest rates (2019: 1%)	**8**	14

(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 £4,902 million at 30 September 2020 (2019: £5,699 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 2020 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement totalled £686 million (2019: £827 million). The total value of trade receivables reclassified as fair value was £22 million at 30 September 2020 (2019: £23 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 collateral appendix the Group had placed £47 million as at 30 September 2020 (2019: £38 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 2020. At the balance sheet date management does not expect these counterparties to default on their current obligations.

	2020		2019	
Counterparty exposure	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	**A+**	**14**	A+	20
2nd highest	**A**	**11**	AA-	19
3rd highest	**A+**	**5**	A	12
4th highest	**A+**	**2**	A	8
5th highest	**–**	**–**	A	8

(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 2020, the Group held liquid assets of £1,626 million (2019: £2,286 million).

The table below summarises the Group's non derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2020. 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.

						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**

						2019
£ 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	46	56	56	–	–	–
Capital market issuance	13,588	15,787	2,345	1,773	5,806	5,863
Trade payables	1,775	1,775	1,775	–	–	–
Total non-derivative financial liabilities	15,409	17,618	4,176	1,773	5,806	5,863

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 2020 the Group was rated Baa3/stable outlook by Moody's Investors Service Ltd, BBB/A-2/stable outlook by Standard and Poor's Credit Market Services Europe Limited and BBB/F3/negative outlook by Fitch Ratings Limited.

The Group regards its total capital as follows.

£ million	2020	2019
Adjusted net debt (note 31)	**10,299**	11,376
Equity attributable to the owners of the parent	**4,871**	4,937
Total capital	**15,170**	16,313

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 2020.

The following table sets out the maturity profile of the hedging instruments used in the Group's net investment hedging strategies:

2020					
		Maturity			
£ million	Total notional balance	<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)**

2019					
		Maturity			
£ million	Total notional balance	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Bonds	(8,407)	(1,681)	(1,328)	(2,494)	(2,904)
Cross-currency swaps	(2,863)	–	–	(1,739)	(1,124)
	(11,270)	(1,681)	(1,328)	(4,233)	(4,028)

The following table contains details of the hedging instruments and hedged items used in the Group's net investment hedging strategies.

£ million	Notional balance	Carrying amount Assets	Carrying amount Liabilities	Balance sheet line item	2020 Changes in fair value used for calculating hedge in-effectiveness
Hedging instrument:					
Bonds	**6,709**	**–**	**6,755**	**Borrowings**	**75**
Cross-currency swaps	**2,950**	**–**	**410**	**Derivative financial instruments**	**(86)**
Hedged item:					
Investment in a foreign operation	**n/a**	**9,659**			**(11)**

£ million	Notional balance	Carrying amount Assets	Carrying amount Liabilities	Balance sheet line item	2019 Changes in fair value used for calculating hedge in-effectiveness
Hedging instrument:					
Bonds	8,407	–	8,482	Borrowings	(228)
Cross-currency swaps	2,863	–	341	Derivative financial instruments	5
Hedged item:					
Investment in a foreign operation	n/a	11,270			(223)

Reconciliation of changes in the value of net investment hedges:

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)**

2019	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	(473)	132	–	–	(341)
Bonds in net investment hedges of foreign operations	(6,913)	(25)	(228)	(1,316)	(8,482)
Total	(7,386)	107	(228)	(1,316)	(8,823)

The Group also treats certain permanent intercompany loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intercompany loans with a notional value of €2,506 million (2019 €2,506 million) and US dollar loans with a notional value of $5,636 million (2019: $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 which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves, foreign exchange rates and credit default swap prices as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 22. 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.

On 25 July 2019 the Company announced that it would invest CAD 123 million by way of a debenture convertible into 19.9 per cent ownership of Auxly at a conversion price of $0.81 per share. The transaction was completed on 25 September 2019. At 30 September 2019 this investment was classified as a financial asset at fair value through profit and loss and sits in Level 3 on the fair value hierarchy using inputs not based upon observable market data, with the option component being valued using a Black Scholes model factoring in a closing share price of $0.78 and the loan component being valued by discounting associated cash flows a rate of 19%, a rate which allowed the fair value to align to the initial investment. A 1% change in the discount rate would have moved the fair value by approximately £4 million. At 30 September 2019 the fair value of the investment was £82 million. At 30 September 2020 the investment in Auxly has been revalued as a loan receivable. A total fair value loss of £60 million has been recognised relating to the remeasurement of expected cash flows from the loan receivable discounted at a rate of 14%, which reduced the carrying value by £24 million, plus the application of an expected credit loss provision of £36 million. As at 30 September 2020 the fair value of the receivable was estimated to be £22 million. The fair value represents the expected recoverable amount factoring in possible future credit losses. There continues to be credit risk exposure on the whole of this financial asset.

On 16 December 2019 the Group made a further investment in the Auxly cannabis business, purchasing 6 million equity shares for a consideration of £3 million. As at 30 September 2020 this equity investment has been revalued to £0.3 million, based on the open market price for the shares.

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 cash pooling arrangements and collateral in respect of derivative financial instruments under collateral appendix. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

					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	Net
Assets					
Derivative financial instruments	913	(47)	866	(858)	8
Cash and cash equivalents	1,626	–	1,626	–	1,626
	2,539	(47)	2,492	(858)	1,634
Liabilities					
Derivative financial instruments	(1,729)	47	(1,682)	858	(824)
Bank loans and overdrafts	(62)	–	(62)	–	(62)
	(1,791)	47	(1,744)	858	(886)

					2019
£ 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	Net
Assets					
Derivative financial instruments	852	(38)	814	(740)	74
Cash and cash equivalents	2,286	–	2,286	–	2,286
	3,138	(38)	3,100	(740)	2,360
Liabilities					
Derivative financial instruments	(1,474)	38	(1,436)	740	(696)
Bank loans and overdrafts	(46)	–	(46)	–	(46)
	(1,520)	38	(1,482)	740	(742)

The table below sets out the Group's accounting classification of each class of financial assets and liabilities:

						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)

£ million	Fair value through income statement	Fair value through other comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-Current
						2019
Trade and other receivables	23	–	2,788	2,811	2,703	108
Cash and cash equivalents	–	–	2,286	2,286	2,286	–
Derivatives	814	–	–	814	137	677
Total financial assets	837	–	5,074	5,911	5,126	785
Borrowings	–	–	(13,634)	(13,634)	(1,937)	(11,697)
Trade and other payables	–	–	(8,452)	(8,452)	(8,452)	–
Derivatives	(1,095)	(341)	–	(1,436)	(28)	(1,408)
Total financial liabilities	(1,095)	(341)	(22,086)	(23,522)	(10,417)	(13,105)
Total net financial (liabilities)	(258)	(341)	(17,012)	(17,611)	(5,291)	(12,320)

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 2020 of those bonds included in the above table is £6,755 million (2019: £8,482 million). All of the Group's net investment hedges remain effective.

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments held at fair value, are as follows.

£ million	2020 Assets	2020 Liabilities	2020 Net Fair Value	2019 Assets	2019 Liabilities	2019 Net Fair Value
Current derivative financial instruments						
Interest rate swaps	**41**	**(31)**	**10**	24	(26)	(2)
Foreign exchange contracts	**9**	**(10)**	**(1)**	104	(2)	102
Cross-currency swaps	**3**	**–**	**3**	9	–	9
Total current derivatives	**53**	**(41)**	**12**	137	(28)	109
Collateral[1]	**–**	**–**	**–**	–	–	–
	53	**(41)**	**12**	137	(28)	109
Non-current derivative financial instruments						
Interest rate swaps	**813**	**(1,204)**	**(391)**	645	(1,079)	(434)
Cross-currency swaps	**–**	**(484)**	**(484)**	32	(367)	(335)
Total non-current derivatives	**813**	**(1,688)**	**(875)**	677	(1,446)	(769)
Collateral[1]	**–**	**47**	**47**	–	38	38
	813	**(1,641)**	**(828)**	677	(1,408)	(731)
Total carrying value of derivative financial instruments	**866**	**(1,682)**	**(816)**	814	(1,436)	(622)
Analysed as:						
Interest rate swaps	**854**	**(1,235)**	**(381)**	669	(1,105)	(436)
Foreign exchange contracts	**9**	**(10)**	**(1)**	104	(2)	102
Cross-currency swaps	**3**	**(484)**	**(481)**	41	(367)	(326)
Collateral[1]	**–**	**47**	**47**	–	38	38
Total carrying value of derivative financial instruments	**866**	**(1,682)**	**(816)**	814	(1,436)	(622)

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 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 £27 million and would have been a £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 2020. 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 2020. 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.

						2020
£ million	**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)**

						2019
£ million	**Balance sheet amount**	**Contractual cash flows total**	**<1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**>5 years**
Net settled derivatives	(398)	(616)	(30)	(37)	(210)	(339)
Gross settled derivatives	(224)					
• receipts		6,852	2,151	165	2,738	1,798
• payments		(6,833)	(2,199)	(100)	(2,701)	(1,833)
	(622)	(597)	(78)	28	(173)	(374)

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 IFRS 9, 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 will be undertaking an exercise, over the course of the 2021 fiscal year, to re-base to risk-free rates all its interest rate derivative contracts that mature after the end of September 2021. 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 where necessary. 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 2020, 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 £11,656 million equivalent (2019: £13,448 million equivalent) with a fair value of £854 million asset (2019: £657 million asset). The fixed interest rates vary from 0.5 per cent to 8.7 per cent (2019: 0.5 per cent to 8.7 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR.

As at 30 September 2020, 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 £10,311 million equivalent (2019: £10,024 million equivalent) with a fair value of £1,189 million liability (2019: £1,055 million liability). The fixed interest rates vary from 0.5 per cent to 4.4 per cent (2019: 0.8 per cent to 4.4 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR. This includes forward starting interest rate swaps with a total notional amount of £2,519 million equivalent (2019: £2,412 million equivalent) with tenors between 4 and 12 years, starting between October 2020 and October 2024.

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 2020, 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 (2019: £2,600 million) and the fair value of these swaps was £409 million net liability (2019: £364 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 (2019: $1,750 million) and the fair value of these swaps was £71 million net liability (2019: £38 million net asset).

Hedges of net investments in foreign operations

As at 30 September 2020, cross currency swaps with a notional amount of €3,233 million (2019: €3,233 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation losses amounting to £86.5 million (2019: £0.3 million gains) 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 (2019: £nil) and there were no transfers out of other comprehensive income (2019: £nil).

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.

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 2020, the notional amount of these contracts was £2,126 million equivalent (2019: £1,087 million equivalent) and the fair value of these contracts was a net liability of £0.7 million (2019: £6 million net asset).

23. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets

£ million	Consolidated income statement 2020	Consolidated income statement 2019	Consolidated balance sheet 2020	Reclassified Consolidated balance sheet 2019
Accelerated depreciation and amortisation	**34**	(9)	**(871)**	(914)
Retirement benefits	**(17)**	(19)	**88**	154
Other temporary differences	**(32)**	(60)	**240**	199
Deferred tax (expense)/benefit	**(15)**	(88)		
Net deferred tax liabilities			**(543)**	(561)

Reflected in the consolidated balance sheet as follows

£ million	2020	Reclassified 2019
Deferred tax assets	**381**	370
Deferred tax liabilities	**(924)**	(931)
	(543)	(561)

The Group has reclassified certain deferred tax assets and liabilities on the balance sheet which were previously stated gross, but which in line with IAS 12 'Income Taxes' shall be stated net where there is a legally enforceable right of offset. The Group has also reclassified certain deferred tax assets and liabilities to more closely align temporary difference classifications with the related accounting classifications.

Reconciliation of net deferred tax liabilities

£ million	2020	Reclassified 2019
As at 1 October	**(561)**	(513)
Charged to the income statement	**(15)**	(88)
Credited to other comprehensive income	**27**	52
Transferred to held for disposal	**1**	(11)
Exchange movements	**10**	(1)
Other movements	**(5)**	–
As at 30 September	**(543)**	(561)

Within Other temporary differences, deferred tax assets of £84 million (2019: £129 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 £152 million (2019: £205 million) have not been recognised due to the potential uncertainty of the utilisation of the tax losses in certain jurisdictions. Of these unrecognised deferred tax assets £30 million (2019: £31 million) are expected to expire within 1 year and £9 million (2019: £46 million) are expected to expire within 5 years. The remaining £113 million (2019: £128 million) has no time expiry.

Also within Other temporary differences, deferred tax assets of £42 million (2019: £17 million) are recognised for tax credits carried forward to the extent that the realisation of the tax related benefit through future taxable profits is probable. Deferred tax assets of £63 million (2019: £145 million) have not been recognised due to the potential uncertainty of the utilisation of the credits. Of these unrecognised deferred tax assets £63 million (2019: £51 million) are expected to expire between 2021 and 2027.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance. In 2020 we recognised deferred tax assets of £51 million (2019: derecognised £87 million) that were previously recognised on the basis that it is more likely than not that these are recoverable (2019: irrecoverable).

A deferred tax liability of £111 million (2019: £130 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £7 billion (2019: £6 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 £16 million (2019: nil). 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.

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 62 per cent, 13 per cent and 8 per cent of the Group's total defined benefit obligations and 36 per cent, 32 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, the level of the ITL's annual contributions to the Fund reduced from £85 million per year to £65 million per year for the year to 31 March 2021. A dynamic contribution schedule has also been agreed, such that the ITL's contributions will reduce or increase depending upon the Fund's valuation going forward. 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 have been put 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.

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 £24 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, is a defined benefit pension plan that is closed to new entrants. It has a weighted average maturity of 11 years. The population comprises 76 per cent in respect of pensioners, 11 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.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2020 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

			2020			Restated 2019
£ million	**DBO**	**Assets**	**Total**	**DBO**	**Assets**	**Total**
At 1 October	**(5,877)**	**5,223**	**(654)**	(5,143)	4,680	(463)
Consolidated income statement expense						
Current service cost	**(49)**	**–**	**(49)**	(44)	–	(44)
Settlements gains/(losses)	**–**	**–**	**–**	3	(3)	–
Past service (losses)	**–**	**–**	**–**	(1)	–	(1)
Cost of termination benefits	**(2)**	**–**	**(2)**	(19)	–	(19)
Net interest (expense)/income on net defined benefit (liability)/asset	**(104)**	**99**	**(5)**	(147)	142	(5)
Administration costs paid from plan assets	**–**	**(6)**	**(6)**	–	(6)	(6)
Cost recognised in the income statement			**(62)**			(75)
Remeasurements						
Actuarial gain due to liability experience	**36**	**–**	**36**	73	–	73
Actuarial gain/(loss) due to financial assumption changes	**22**	**–**	**22**	(814)	–	(814)
Actuarial gain/(loss) due to demographic assumption changes	**228**	**–**	**228**	(14)	–	(14)
Return on plan assets excluding amounts included in net interest (expense)/income above	**–**	**(9)**	**(9)**	–	507	507
Remeasurement effects recognised in other comprehensive income			**277**			(248)
Cash						
Employer contributions	**–**	**145**	**145**	–	142	142
Employee contributions	**(1)**	**1**	**–**	(1)	1	–
Benefits paid directly by the company	**266**	**(266)**	**–**	218	(218)	–
Benefits paid from plan assets	**–**	**–**	**–**	48	(48)	–
Net cash			**145**			142
Other						
Exchange movements	**(17)**	**(5)**	**(22)**	(36)	26	(10)
Total other			**(22)**			(10)
At 30 September	**(5,498)**	**5,182**	**(316)**	(5,877)	5,223	(654)

The cost of termination benefits in the year ended 30 September 2020 and 30 September 2019 mainly relate to restructuring activity in Germany.

The 2019 pension scheme assets and liabilities, actuarial gain/(loss) due to financial assumption and return on plan assets excluding amounts included in net interest income (expense) have been restated and reduced by £199 million (2018: £199 million) following the closure of the Netherlands scheme in 2017.

Retirement benefit scheme costs charged to operating profit

£ million	2020	2019
Defined benefit expense in operating profit	**57**	70
Defined contribution expense in operating profit	**17**	17
Total retirement benefit scheme cost in operating profit	**74**	87

Split as follows in the consolidated income statement:

£ million	2020	2019
Cost of sales	**24**	27
Distribution, advertising and selling costs	**31**	37
Administrative and other expenses	**19**	23
Total retirement benefit scheme costs in operating profit	**74**	87

Assets and liabilities recognised in the consolidated balance sheet

£ million	2020	2019
Retirement benefit assets	**940**	595
Retirement benefit liabilities	**(1,256)**	(1,249)
Net retirement benefit liability	**(316)**	(654)

Key figures and assumptions used for major plans

£ million unless otherwise indicated	2020 ITPF	2020 RCPP	2020 ITGBH	2019 ITPF	2019 RCPP	2019 ITGBH
Defined benefit obligation (DBO)	**3,516**	**764**	**434**	3,880	758	453
Fair value of scheme assets	**(4,395)**	**–**	**(398)**	(4,416)	–	(418)
Net defined benefit (asset)/liability	**(879)**	**764**	**36**	(536)	758	35
Current service cost	**18**	**16**	**4**	16	12	3
Employer contributions	**85**	**–**	**–**	85	–	–
Principal actuarial assumptions used (% per annum)						
Discount rate	**1.7**	**0.9**	**2.8**	1.8	0.9	3.2
Future salary increases	**2.9**	**2.4**	**n/a**	3.1	2.6	n/a
Future pension increases	**2.9**	**1.3**	**n/a**	3.1	1.5	n/a
Inflation	**2.9**	**1.3**	**2.5**	3.1	1.5	2.5

2020	ITPF Male	ITPF Female	RCPP Male	RCPP Female	ITGBH Male	ITGBH 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**

2019	ITPF Male	ITPF Female	RCPP Male	RCPP Female	ITGBH Male	ITGBH Female
Life expectancy at age 65 years:						
Member currently aged 65	22.1	23.7	20.2	23.7	19.6	22.1
Member currently aged 50	23.3	25.5	22.3	25.4	20.9	23.3

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 (2019: SAPS S2) 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 (2019: 2015) 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.

% increase in DBO	2020 ITPF	2020 RCPP	2020 ITGBH	2019 ITPF	2019 RCPP	2019 ITGBH
Discount rate: 0.5% decrease	**8.7**	**10.3**	**6.0**	9.3	10.4	5.7
Rate of inflation: 0.5% decrease	**7.0**	**6.7**	**n/a**	7.7	6.8	n/a
One year increase in longevity for a member currently age 65, corresponding changes at other ages	**4.9**	**4.8**	**5.0**	4.9	4.9	4.5

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:

£ million unless otherwise indicated	2020 Fair value	2020 Percentage of ITPF scheme assets	2019 Fair value	2019 Percentage of ITPF scheme assets
Equities	**1**	**–**	497	11
Bonds – index linked government	**2,344**	**53**	1,912	43
Bonds – corporate and other	**693**	**16**	666	15
Property	**533**	**12**	563	13
Absolute return	**809**	**18**	732	17
Other – including derivatives, commodities and cash	**15**	**1**	46	1
	4,395	**100**	4,416	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 (2019: £0.3 million). 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:

£ million unless otherwise indicated	2020 Fair value	2020 Percentage of ITGBH scheme assets	2019 Fair value	2019 Percentage of ITGBH scheme assets
Investment funds	**224**	**56**	279	67
Bonds – fixed government	**45**	**11**	47	11
Bonds – corporate and other	**121**	**31**	71	17
Other – including derivatives, commodities and cash	**8**	**2**	21	5
	398	**100**	418	100

The majority of the assets are non-quoted.

25. PROVISIONS

£ million	2020 Restructuring	Other	Total
At 1 October 2019	**245**	**286**	**531**
Additional provisions charged to the consolidated income statement	**114**	**61**	**175**
Amounts used	**(101)**	**(148)**	**(249)**
Unused amounts reversed	**(6)**	**(40)**	**(46)**
Transferred (to)/from held for disposal (note 11)	**(3)**	**4**	**1**
Exchange movements	**4**	**–**	**4**
At 30 September 2020	**253**	**163**	**416**

Analysed as:

£ million	2020	2019
Current	**220**	284
Non-current	**196**	247
	416	531

Restructuring provisions relate mainly to our cost optimisation programme (see note 5). The restructuring provision is split between Cost Optimisation Programme 2 of £157 million, Cost Optimisation Programme 1 of £79 million and other restructuring programmes of £17 million. Within the Cost Optimisation Programme provisions there is £124 million related to costs of consolidating the manufacturing capacity within the Group and £26 million relating to site specific factory closures. It is expected that the restructuring provisions will be predominantly utilised over the next 2 years.

Other provisions include £46 million relating to local employment requirements including holiday pay and £28 million to various local tax or duty requirements. The provisions are spread throughout the Group and payment will be dependent on local statutory requirements. Most provisions will be utilised within the next two years, though certain employee related provisions may be required to be held for a period of up to 10 years.

26. SHARE CAPITAL

£ million	2020	2019
Authorised, issued and fully paid		
1,020,697,238 ordinary shares of 10p each (2019: 1,025,795,746)	**103**	103

During the year 5,098,508 shares (2019: 5,230,338 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.

Analysis of charge to the consolidated income statement

£ million	2020	2019
Share Matching Scheme	**4**	9
Long Term Incentive Plan	**13**	12
Sharesave Plan	**2**	1
Discretionary Share Awards Plan	**1**	1
	20	23

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2020 was £1.2 million (2019 £0.9 million).

Reconciliation of movements in awards/options

					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**	**12.39**
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**

					2019
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 2018	1,307	3,014	1,324	71	25.03
Granted	243	2,132	883	45	17.45
Lapsed/cancelled	(66)	(677)	(633)	(5)	24.02
Exercised	(701)	(156)	(15)	(17)	25.05
Outstanding at 30 September 2019	783	4,313	1,559	94	21.21
Exercisable at 30 September 2019	–	–	168	–	29.68

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £19.34 (2019: £26.06). The weighted average fair value of Sharesave options granted during the year was £2.37 (2019: £3.32).

Summary of awards/options outstanding at 30 September 2020

Thousands of shares unless otherwise indicated	Number of awards/options outstanding	Vesting period remaining in months	Exercise price of options outstanding £
Share Matching Scheme			
2018	**140**	**5**	**n/a**
2019	**140**	**17**	**n/a**
2020	**181**	**29**	**n/a**
Total awards outstanding	**461**		
Long Term Incentive Plan			
2018	**1,694**	**5**	**n/a**
2019	**1,896**	**17**	**n/a**
2020	**3,005**	**29**	**n/a**
Total awards outstanding	**6,595**		
Sharesave Plan			
2017	**147**	**–**	**29.62**
2018	**188**	**10**	**22.24**
2019	**296**	**22**	**17.45**
2020	**1,375**	**34**	**12.37**
Total options outstanding	**2,006**		
Discretionary Share Awards Plan			
2017	**2**	**–**	**n/a**
2018	**24**	**11**	**n/a**
2019	**41**	**17**	**n/a**
2019	**3**	**17**	**n/a**
Total options outstanding	**70**		

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 2020 and 2019 is as follows

	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**

	2019		
	Share matching	Sharesave	DSAP
Risk-free interest rate %	1.1	(1.4)	0.7-1.1
Volatility (based on 3 or 5 year history) %	25.0	24.5-26.1	24.7-26.3
Expected lives of options granted years	3.00	3.00	2.58-3
Dividend yield %	6.65	6.65	6.65
Fair value £	21.72	2.37-3.54	15.65-21.72
Share price used to determine exercise price £	26.52	19.77-21.81	18.69-26.52
Exercise price £	n/a	17.45	n/a

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2020 and 2019 are given in the following table.

%	2020	2019
Future Imperial Brands share price volatility	**20.0**	20.0
Future Imperial Brands dividend yield	**–**	–
Share price volatility of the tobacco and alcohol comparator group	**14.7-28.3**	14.9-65.6
Correlation between Imperial Tobacco and the alcohol and tobacco comparator group	**22.1**	27.0

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 2020. 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	2020	2019
At 1 October	**2.8**	0.7
Gift of shares from Treasury	**–**	3.0
Distribution of shares held by Employee Share Ownership Trusts	**(0.7)**	(0.9)
At 30 September	**2.1**	2.8

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2019: nil) and 2.1 million (2019: 2.8 million) treasury shares gifted to the Trusts by the Group. There were nil (2019: 3 million) shares gifted in the financial year 2020.

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 per cent of issued share capital. During the year the Group purchased 5,098,508 shares at a cost of £92 million (2019: 5,230,338 shares at a cost of £108 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

	2020		2019	
£ million unless otherwise indicated	Millions of shares (number)	Value	Millions of shares (number)	Value
At 1 October	**74.3**	**2,183**	77.3	2,183
Purchase of shares	**5.1**	**92**	5.2	108
Cancellation of shares	**(5.1)**	**(92)**	(5.2)	(108)
Gifted to Employee Share Ownership Trusts	**–**	**–**	(3.0)	–
At 30 September	**74.3**	**2,183**	74.3	2,183
Percentage of issued share capital	**7.3**	**n/a**	7.2	n/a

29. COMMITMENTS

Capital commitments

£ million	2020	2019
Contracted but not provided for:		
Property, plant and equipment and software	**187**	179

30. CONTINGENT LIABILITIES

Where contingent liabilities are disclosed and not quantified this is because it is not practicable to do so.

Legal proceedings

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. For further details see page 90-94 of the Directors' Report.

Master Settlement Agreement

In the mid 1990s, the Attorneys General of most of the US States filed litigation against the major tobacco manufacturers seeking to recover the costs of treating tobacco related illnesses. In November, 1998, the States and the companies entered into a comprehensive settlement of these actions known as the Master Settlement Agreement ("MSA"). The parties to the MSA included the major US cigarette manufacturers, including Reynolds Tobacco Co, and Lorillard, and 46 US states, the District of Columbia and certain US territories and possessions.

Prior to November 1998, these same cigarette manufacturers had settled four other cases which had arisen in Mississippi, Florida, Texas and Minnesota (the "Previously Settled States"), by separate agreements with each state. The Previously Settled States agreements are referred to as the "State Settlement Agreements". ITG Brands is currently a party to the MSA and the Mississippi State Settlement Agreement only.

By entering into the MSA and State Settlement Agreements the company has the benefit of a release from liability from the States' various historic tobacco product liability claims. The requirements of the tobacco companies as a party to the MSA and Mississippi State Settlement Agreement, involves making annual payments which are based on the volume of US tobacco sales, and an agreement to abide by certain marketing restrictions. The associated charge under the MSA for the US Group companies in the year was £432 million (2019: £425 million). This is recognised within other cost of sales. In addition, the amount paid under the Mississippi State Settlement Agreement was £7 million (2019:£7 million) and was also recognised in other cost of sales.

Competition authority investigations

The Group is currently co-operating with the Belgian national competition authority in relation to an ongoing competition law investigation and is engaged in appealing fines imposed on Group companies by competition authorities through the national courts in other relevant countries.

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. Following some delay due to court closures due to COVID-19, a hearing to hear oral evidence from the economic experts took place in October 2020 and Imperial will proceed to prepare its final written conclusions.

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. Since that date, the Group's subsidiary has responded to various information requests as the BCA investigation continues. The BCA may issue a Statement of Objections which would state the allegations and provide an opportunity to respond. No fines are imposed at this stage. Given that the allegations against the Group's subsidiary have not yet been articulated, provision for a fine would not be appropriate.

Others

Germany

In late March 2020, a trademark infringement claim was filed against Reemtsma Cigarettenfabriken GmbH ("Reemtsma") in the Hamburg Court by an e-cigarette company. The claim relates to the DAVIDOFF EVOLVED product which was launched in Germany in March 2019. The claimant has requested that the court grant an injunction to prevent Reemtsma using "EVOLVED" and also determine that Reemtsma provide compensation regarding its use of EVOLVED. A first instance decision is expected in 2021.

Morocco – former retirees

A number of cases have been raised against Societe Marocaine des Tabacs SA (SMT) disputing a reduction to retirees' pensions. These cases have been in the courts for a number of years and SMT has successfully defended many of them. As the routes to appeal for previous judgements are reaching the final courts available in Morocco there is a possible outcome that SMT may owe retirees up to £100 million, although the company remains of the opinion that the case for the defence is robust.

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 2019	(1,937)	–	(11,697)	(622)	(14,256)	2,286	(11,970)
On adoption of IFRS 16	–	(326)	–	–	(326)	–	(326)
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 and 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)

£ million	Current borrowings	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2018	(2,397)	(9,598)	(679)	(12,674)	775	(11,899)
Reallocation of current borrowings from non-current borrowings	(1,656)	1,656	–	–	–	–
Cash flow	2,159	(3,528)	117	(1,252)	1,540	288
Accretion of interest	20	(26)	39	33	–	33
Change in fair values	–	–	(174)	(174)	–	(174)
Exchange movements	(63)	(201)	75	(189)	(15)	(204)
Transferred to held for disposal (note 11)	–	–	–	–	(14)	(14)
At 30 September 2019	(1,937)	(11,697)	(622)	(14,256)	2,286	(11,970)

Analysis by denomination currency

£ million	GBP	EUR	USD	Other	2020 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)

£ million	GBP	EUR	USD	Other	2019 Total
Cash and cash equivalents	235	659	932	460	2,286
Total borrowings	(2,687)	(4,588)	(6,326)	(33)	(13,634)
	(2,452)	(3,929)	(5,394)	427	(11,348)
Effect of cross currency swaps	2,510	(4,268)	1,432	–	(326)
	58	(8,197)	(3,962)	427	(11,674)
Derivative financial instruments					(296)
Net debt					(11,970)

Adjusted net debt

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals and the fair value of derivative financial instruments providing commercial hedges of interest rate risk.

£ million	2020	2019
Reported net debt	(11,141)	(11,970)
Accrued interest	156	162
Lease liabilities	299	–
Fair value of interest rate derivatives	387	432
Adjusted net debt	(10,299)	(11,376)

32. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

£ million	2020	2019
(Decrease)/Increase in cash and cash equivalents	(611)	1,540
Cash flows relating to derivative financial instruments	23	117
Repayment of lease liabilities	72	–
Increase in borrowings	(1,240)	(3,699)
Repayment of borrowings	3,096	2,330
Change in net debt resulting from cash flows	1,340	288
Other non-cash movements including revaluation of derivative financial instruments	77	(141)
Transferred to held for disposal (note 11)	(62)	(14)
Lease liabilities	(358)	–
Exchange movements	(168)	(204)
Movement in net debt during the year	829	(71)
Opening net debt	(11,970)	(11,899)
Closing net debt	(11,141)	(11,970)

The increase in borrowings and repayment of borrowings reflect the cashflow movements relating to borrowings outstanding at the start and at the end of each financial year; cashflows 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	2020	2019
Current assets	6,106	5,440
Current liabilities	(6,909)	(6,254)
Current net assets	(803)	(814)
Non-current assets	1,740	1,644
Non-current liabilities	(421)	(309)
Non-current net assets	1,319	1,335
Net assets	516	521

Summarised statement of comprehensive income

for the year ended 30 September

Euro million	2020	2019
Revenue	10,559	10,148
Profit for the year	157	165
Other comprehensive income	1	(3)
Total comprehensive income	158	162

Summarised cashflow statement

for the year ended 30 September

Euro million	2020	2019
Cashflows from operating activities	830	347
Cashflows from investing activities	(640)	(190)
Cashflows from financing activities	(188)	(150)
Net increase in cash and cash equivalents	2	7

34. POST BALANCE SHEET EVENTS

Sale of the Premium Cigar Division

On 29 October 2020 the group completed the sale of the Premium Cigar Division for a consideration of €1,198 million. This business, excluding La Romana, was classified as an asset held for sale at 30 September 2020. For more details see note 11.

USA

On 13 October 2020 a new Product Liability Litigation (PLL) case was filed against Fontem US and ITG Brands in the US in relation to the usage of e-cigarettes and other vaping devices. The case has not been served on either Fontem US or ITG Brands by the 17 November 2020 but this action is expected.

35. BREXIT

Following the UK's exit from the European Union on 31 January 2020, the Group has looked at the potential impacts of the UK leaving the transition period on the 31 December 2020 without a substantive trade agreement in place. The key risks remain a potential increase in import duties and impact on UK customers; additional risk of tobacco smuggling, inventory requirements to ensure supply, impact on consumer confidence, and implications on existing international tax legislation. In the event that these are not addressed prior to 31 December 2020, we estimate there could be additional costs of around £75 million annually primarily relating to import duties.

36. 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 2020, 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	2020	2019
Fixed assets			
Investments	iii	**7,968**	7,968
Current Assets			
Debtors	iv	**4,364**	6,174
Creditors: amounts falling due within one year	v	**(44)**	(44)
Net current assets		**4,320**	6,130
Net assets		**12,288**	14,098
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		**8,091**	10,043
Profit and loss account – profit for the year		**35**	67
Profit and loss account – other movements for year		**(1,778)**	(1,952)
Total shareholders' funds		**12,288**	14,098

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 191-195 were approved by the Board of Directors on 17 November 2020 and signed on its behalf by:

THÉRÈSE ESPERDY
Chairman

OLIVER TANT
Director

IMPERIAL BRANDS PLC STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2020

£ million	Share capital	Share premium and capital redemption	Retained Earnings	Total Equity
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**
At 1 October 2018	103	5,837	10,043	15,983
Profit for the year	–	–	67	67
Total comprehensive income	–	–	67	67
Transactions with owners				
Repurchase of shares	–	–	(108)	(108)
Dividends paid	–	–	(1,844)	(1,844)
At 30 September 2019	103	5,837	8,158	14,098

Total distributable reserves were £6,339 million (2019 £8,157 million).

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 2020.

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 149-151).

These financial statements were prepared in accordance with the Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), 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;
- 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.

Financial instruments

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.

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.

IFRIC 23 'Uncertainty over income tax treatments'

IFRIC 23 'Uncertainty over income tax treatments' was adopted on 1 October 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The adoption of this interpretation has not had a material effect on the Company's net assets or results.

II. DIVIDENDS

Distributions to ordinary equity holders

£ million	2020	2019	2018
Paid interim of 41.70 pence per share (2019: 62.56 pence, 2018: 122.33 pence)			
• Paid June 2018	**–**	–	271
• Paid September 2018	**–**	–	271
• Paid December 2018	**–**	–	624
• Paid June 2019	**–**	298	–
• Paid September 2019	**–**	298	–
• Paid December 2019	**–**	679	–
• Paid June 2020	**197**	–	–
• Paid September 2020	**197**	–	–
Interim dividend paid	**394**	1,275	1,166
Proposed interim of 48.00 pence per share (2019: 72.00 pence, 2018: nil)			
• To be paid December 2020	**453**	–	–
Interim dividend proposed	**453**	–	–
Proposed final of 48.01 pence per share (2019: 72.01 pence, 2018: 65.46 pence)			
• Paid March 2019	**–**	–	624
• Paid March 2020	**–**	680	–
• To be paid March 2021	**454**	–	–
Final dividend	**454**	680	624
Total ordinary share dividends of 137.71 pence per share (2019: 206.57 pence, 2018: 187.79 pence)	**1,301**	1,955	1,790

The third interim dividend for the year ended 30 September 2020 of 48.00 pence per share amounts to a proposed dividend of £453 million, which will be paid in December 2020.

The proposed final dividend for the year ended 30 September 2020 of 48.01 pence per share amounts to a proposed dividend payment of £454 million in March 2021 based on the number of shares ranking for dividend at 30 September 2020, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2020 will be £1,301 million (2019: £1,955 million). The dividend paid during 2020 is £1,753 million (2019: £1,844 million).

III. INVESTMENTS

Cost of shares in Imperial Tobacco Holdings (2007) Limited

£ million	2020	2019
At 1 October	**7,968**	7,968
At 30 September	**7,968**	7,968

The Directors believe 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 196-211.

IV. DEBTORS

£ million	2020	2019
Amounts owed from Group undertakings	**4,364**	6,174

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	2020	2019
Amounts owed by Group undertakings	**35**	35
Cash at bank and in hand	**2**	2
Other creditors	**7**	7
	44	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	2020	2019
Authorised, issued and fully paid 1,020,697,238 ordinary shares of 10p each (2019: 1,025,795,746)	**103**	103

During the year 5,098,508 shares (2019: 5,230,338 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 £35 million (2019: £67 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 per cent of issued share capital. During the year the Group purchased 5,098,508 shares at a cost of £92 million (2019: 5,230,338 shares at a cost of £108 million) which were immediately cancelled. Shares held in treasury do not qualify for dividends.

£ million unless otherwise indicated	2020 Millions of shares (number)	2020 Value	2019 Millions of shares (number)	2019 Value
At 1 October	**74.3**	**2,183**	77.3	2,183
Purchase of shares	**5.1**	**92**	5.2	108
Cancellation of shares	**(5.1)**	**(92)**	(5.2)	(108)
Gifted to Employee Share Ownership Trusts	**–**	**–**	(3.0)	–
At 30 September	**74.3**	**2,183**	74.3	2,183
Percentage of issued share capital	**7.3**	**n/a**	7.2	n/a

VIII. GUARANTEES

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 2020. See note 1 Accounting Policies of the consolidated financial statements for further details.

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 2020, the amount guaranteed is £18,620 million (2019: £19,272 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2020 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 2020 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 2020. 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 96-123 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.