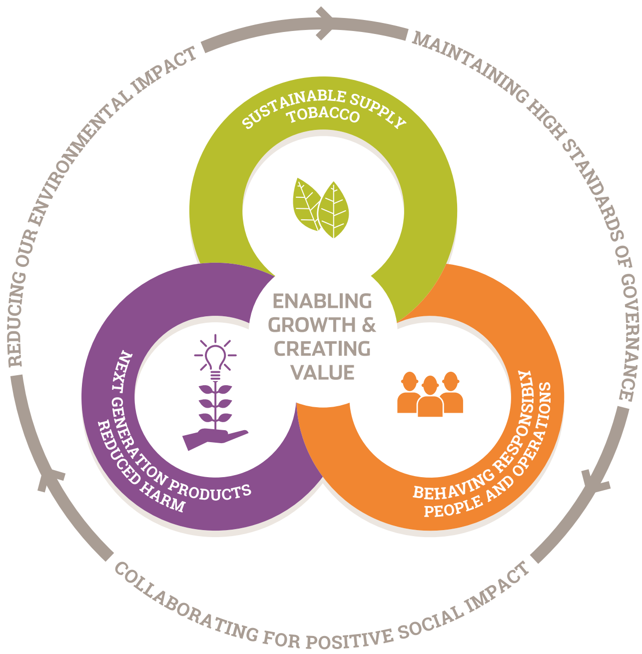
MANAGING OUR ESG RESPONSIBILITIES

Our sustainability strategy is integral to our long-term success and frames the way we manage our environmental, social and governance (ESG) responsibilities. Our strategy is aligned with the UN Sustainable Development Goals, which aim to have a transformational impact on the world by 2030 by addressing global challenges such as poverty, availability of clean water, inequality and climate change.

OUR SUSTAINABILITY STRATEGY



Next Generation Products
Developing alternative products that are potentially less harmful to health.

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

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

Overseen by the Board and ESG Committee
The Board has oversight of our ESG responsibilities, supported by a cross-functional ESG Steering Committee, chaired by the Chair of Imperial Brands. The Committee meets formally during the year and encourages members to stay in touch with each other on a day-to-day basis to ensure there is regular ongoing dialogue about ESG matters.

▶ Read more in our governance report on page 62

OUR PRIORITY ESG ISSUES

1 Consumer health
We understand society's concerns about the health risks of smoking and recognise the important role we can play in helping to reduce the harm caused by combustible tobacco products.

2 Climate and energy
Given our global reach and influence, we have a duty to protect the natural environment and actively work to minimise our environmental impacts.

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

4 Human rights – modern slavery
As an international business we recognise the importance, influence and duty we have in promoting respect for human rights across our business and supply chains.

5 Waste
As part of our duty to protect the natural environment, we seek to minimise waste and waste sent to landfill.

▶ Find out more at www.imperialbrandsplc.com/sustainability/approach

Our commitment	How we are achieving this	Our progress in 2020	UN SDGs
We are committed to strengthening our NGP performance and in doing so, making a more meaningful contribution to harm reduction by offering adult smokers a range of potentially less harmful products.	Building consumer and regulatory confidence in NGP by scientifically substantiating their harm reduction potential relative to conventional cigarettes. Seeking to underpin our NGP operations with leading-edge science, innovation and high quality standards.	Completed pre-clinical studies that show NGPs *my*blu and Pulze aerosols contain fewer and substantially lower levels of toxicants, and reduced in vitro toxicity, compared to cigarette smoke. Our clinical studies show substantial reductions in exposure to harmful chemicals for smokers that switch to *my*blu.	We are committed to tobacco harm reduction.
We are committed to reducing our climate and energy impacts across our value chain, from crop production to manufacturing and distribution.	Managing our climate-related risks and opportunities across our business and value chain. Reducing our carbon footprint across our value chain. Better understanding the carbon footprint of our NGP.	We have developed site-based opportunities to ensure we deliver against our 2030 science-based carbon reduction targets. We have seen a 12 per cent decrease in total Scope 1 and 2 emissions from our 2017 baseline year and our target is to reduce by 25 per cent by 2030. We conducted a life cycle analysis of *my*blu which provided comprehensive information about the product's environmental impact.	We are taking action to combat climate change and its impacts.
We are committed to supporting farmers to diversify income streams in order to enhance farming community livelihoods and welfare.	Strengthening the industry-wide Sustainable Tobacco Programme (STP) to measure positive impact. Working together with our tobacco leaf suppliers through our Leaf Partnerships to allocate funds to continually improve access to basic needs and diversification of income.	We are members of the STP Steering Committee and are contributing to the development of STP. We supported farmers in Africa and Asia in diversifying their income from growing complementary crops to tobacco, such as fruit trees, maize, groundnuts and vegetables. We funded projects in Africa, Asia and South America enhancing access to basic needs to over 12,000 people. Case studies are on our website.	We are committed to decent work for all and sustainable economic growth.
We are committed to raising awareness and improving processes for identifying modern slavery in our business and supply chains.	Better understanding modern slavery risk across our business and supply chains. Educating the business on the risk of modern slavery. Introducing a robust human rights framework, which includes how we address modern slavery and the issue of child labour in tobacco farming.	We started to implement the recommendations from the Slave Free Alliance (SFA) gap analysis conducted in 2019, although our work was hampered by the impact of COVID-19. Details are available on our website. SFA conducted a workshop for our global procurement team. Our Modern Slavery e-learning module is now available to employees in 12 languages. Specialist training has been provided for key functional representatives.	We are committed to decent work for all and sustainable economic growth.
We are committed to minimising the waste associated with our products, packaging and production processes.	Supporting manufacturing sites to achieve the 2030 targets set for waste. Innovating waste solutions for product disposal. Monitoring and responding to EU legislative changes, including the Single-Use Plastics Directive.	Developed the *my*blu recycling playbook to support markets and our product design teams in understanding how to implement recycling and take-back schemes for current *my*blu devices, pods and packaging. We continue to explore opportunities for improving material recycling in our cigarette filters and packaging.	Ensuring sustainable consumption and production patterns.

2020 PERFORMANCE HIGHLIGHTS

We have developed new Key Performance Indicators to reflect our performance against our priority ESG areas, which will be validated against the new commercial strategy and reported on next year. Below we have presented highlights from our 2020 ESG performance. We measure our environmental performance by comparing results with our 2017 baseline year. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.

ENVIRONMENTAL

CLIMATE AND ENERGY PERFORMANCE

Performance indicator		2017	2018	2019	2020	Commentary
Operations with ISO 14001 certification	%	92	91	86	**86**	Our coverage of certifications remains consistent with last year. One of our African sites was due to be recertified this year but this was delayed due to COVID-19.
Absolute energy consumption[1]	GWh	875	842	788	**773[A]**	We have seen a 12 per cent decrease in energy consumption from our 2017 baseline year. Our target is to reduce energy consumption by 25 per cent by 2030. In compliance with the UK streamlined energy and carbon reporting (SECR), requirements, our total UK energy consumption was 14.33 GWh which is 1.85 per cent of the global total (2019: 13.32 GWh and 1.69 per cent).
Relative energy consumption[1]	KWh/£m net revenue	112,801	108,926	98,500	**96,625[A]**	
Absolute Scope 1 CO_2e emissions[1]	Tonnes	118,000	110,896	108,241	**99,577[A]**	Our Scope 1 emissions arise from stationary fuel combustion at our sites, refrigerant gases and from mobile fuel combustion in our fleet of company sales vehicles. We have seen a 8 per cent decrease in Scope 1 emissions since last year.
Absolute Scope 2 CO_2e location-based emissions[1]	Tonnes	161,573	161,020	158,108	**147,039[A]**	Our Scope 2 emissions comprise the indirect emissions resulting from the use of purchased electricity, heat and steam at our sites. We have seen a 7 per cent decrease in Scope 2 emissions since last year. There has been a restatement of 2017 to 2019 data to include emissions from green energy consumption.
Total absolute Scope 1 and 2 CO_2e emissions[1]	Tonnes	279,573	271,916	266,349	**246,616[A]**	We have seen a 12 per cent decrease in total Scope 1 and 2 emissions from our 2017 baseline year. Our target is to reduce these emissions by 25 per cent by 2030. We have also set a Scope 3 target to minimise our carbon impact beyond our direct operations. In compliance with the UK SECR requirements, our total UK Scope 1 and 2 emissions were 3,289 tonnes CO_2e emissions, which is 1.33 per cent of the global total (2019: 3,210 CO_2e emissions and 1.24 per cent).
Relative Scope 1 and 2 CO_2e emissions[1]	Tonnes/£m net revenue	39.0	35.2	32.4	**30.8[A]**	
Key suppliers by spend with science-based targets	%	–	19	22	**38**	We are committed to ensuring that 50 per cent of our suppliers by spend will have science-based targets by 2023.
Logista absolute Scope 1 and 2 CO_2e emissions	Tonnes	38,554	38,924	38,906	**–**	Logista is managed remotely due to commercial sensitivities and has provided independently assured data for absolute Scope 1, 2 and 3 emissions. Data for 2020 is still undergoing independent assurance. Logista's 2019 relative Scope 1 and 2 emissions comprise 38 tonnes (2018: 39) of CO_2e per £million of 2019 distribution fees (our non-GAAP revenue measure for Logista). Further information on the scope of Logista's GHG reporting is available at www.grupologista.com
Logista absolute Scope 3 CO_2e emissions	Tonnes	193,611	189,980	201,566	**–**	

WASTE AND WATER PERFORMANCE

Performance indicator		2017	2018	2019	2020	Commentary
Total waste[1]	Tonnes	49,141	43,388	41,366	**40,253[A]**	We have seen an 18 per cent decrease in waste from our 2017 baseline year. This is largely driven by the impact of COVID-19 on manufacturing and we will continue to review this indicator in 2021. Our target is to reduce waste by 20 per cent by 2030.
Waste to landfill[1]	Tonnes	6,746	6,769	7,109	**6,431[A]**	We have seen a 5 per cent decline in waste sent to landfill from our 2017 baseline year. Our target is to reduce waste sent to landfill by 50 per cent by 2030.
Absolute water consumption[1]	m^3	1,468,626	1,327,102	1,316,904	**1,198,523[A]**	We have seen an 18 per cent reduction in water use from our 2017 baseline year, which exceeds our target to reduce water consumption by 15 per cent by 2030. However, this decrease is largely driven by the impact of COVID-19 on manufacturing and we will continue to review this indicator in 2021.

STEPPING UP SUPPLIER ENGAGEMENT

Around 75 per cent of our overall carbon footprint comes from activities across our supply chain: our Scope 3 emissions. In order to make meaningful progress in reducing our carbon footprint, we engage with our suppliers to encourage them to measure, monitor, reduce and report their operational carbon emissions.

We have been working with our procurement teams to ensure that all of our key suppliers are invited to report this information to us. This is largely done through the CDP Supply Chain Programme. In 2020 we piloted a programme to directly engage with those key suppliers who do not participate in CDP. With this two-pronged approach we have received information from the majority of our key suppliers. We provide further information on Scope 3 performance and our approach to assessing this in our Sustainability Performance Summary available on our website.

RESPONDING TO THE TCFD

We have reported on our approach to managing and mitigating climate related risks for a number of years, both within our sustainability reporting and CDP disclosures. As we learn to operate with a changing climate, we recognise the importance of increasing climate related impact disclosure and implementing the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).

One example of how a climatic event has impacted our business occurred in January 2020. Our operations in Madagascar received extremely heavy rainfall, with 50 per cent of expected seasonal rain in five days, resulting in extensive flooding on the smallholder farms and our commercial operations.

Following a detailed assessment a three-year investment plan was approved by the Executive Committee to strengthen the infrastructure of the site.

▶ **Further details of how we manage climate related risk can be found in our TCFD summary on the website**

*my*blu LCA

In 2020, we conducted a life cycle analysis of our *my*blu starter kit to generate an environmental profile across its entire life cycle. The analysis identified possible improvement areas, including reducing emissions during production and waste management opportunities at disposal stage.

We launched a *my*blu recycling playbook, which guides our markets to implement local takeback and recycling schemes for devices, pods and packaging. In Germany, we have successfully introduced a pod recycling takeback scheme which we hope to roll-out to other markets too.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SCIENCE BASED TARGETS INITIATIVE

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

CDP

CDP HIGHEST AWARD

CDP, the international non-profit organisation that helps companies manage their environmental impact, has awarded us an A rating for climate change and supplier engagement. This is the highest award CDP gives. It recognises the leadership and actions we are taking to cut emissions, mitigate climate risks, contribute to a low-carbon economy and engage with suppliers to manage climate risk and reduce Scope 3 carbon emissions in our supply chain.

SOCIAL

SOCIAL PERFORMANCE

Performance indicator		2017	2018	2019	2020	Commentary
Employee fatalities[2]	number	0	0	2	**3**	We regret to have to report three work-related employee fatalities in 2020. We provided family members and work colleagues with comprehensive support.
Contractor fatalities[2]	number	0	0	0	**0**	Health and safety remains a priority for all our stakeholders.
Members of the public fatalities[2]	number	1	4	1	**0**	Health and safety remains a priority for all our stakeholders.
Lost time accidents (LTA)[2,3]	number	92	118	101	**80**	There has been a 21 per cent decrease in the number of lost time accidents compared to last year.
LTA rate[2,3]	lost time accidents per 200,000 hours worked	0.36	0.46	0.40	**0.32**[A]	There has been a 20 per cent decline in our lost time accident rate compared to last year.
Total number of accidents[2,3]	Number	937	931	850	**720**	We have seen a 15 per cent decrease in total accidents compared to last year.
Accident rate[2,3]	total accidents per 200,000 hours worked	3.66	3.61	3.39	**2.19**	We have seen a 14 per cent decline in our accident rate compared to last year.
Vehicle accident frequency rate[3]	accidents per million kilometres	–	–	5.03	**4.19**	There has been a 17 per cent decrease in our vehicle accident rate compared to last year.
OHSAS 18001 / ISO 45001 certification	%	87	87	79	**79**	2019 data has been restated due to reporting error. One of our African sites was due to be recertified this year but this was delayed due to COVID-19, therefore our coverage remains consistent with last year.
Female employees	%	40	41	42	**42**	Female employee numbers remain the same as last year.
Female Executive Committee members	%	11	13	11	**14**[A]	We are committed to increasing female representation within senior management roles to 30 per cent by 2023.
Female Board members	%	30	33	40	**25**[A]	Following a number of Board changes there has been a 38 per cent reduction in female members since last year.
Employee turnover rate	%	15.0	15.1	13.2	**11.8**	Employee turnover rate has decreased in comparison to last year.

HEALTH AND SAFETY

In these difficult times, the welfare of our people has never been more important.

As of 30 September 2020, 79 per cent of our manufacturing sites were independently certified to the international standard OHSAS 18001. Many facilities were reconfigured during the year to enable social distancing and safe working during the coronavirus.

We were pleased to see a further decline in our Lost Time Accident frequency rate. Details can be found on page 13 of the Key Performance Indicators section.

Despite our relentless focus on health and safety, we operate in some challenging regions that pose risk to our employees. We were deeply shocked and saddened about the work-related deaths of three employees in Africa in separate incidents. One employee died in a road traffic accident and two were murdered. We provided their families and work colleagues with comprehensive support and carried out a thorough review of each incident.

CONSUMER HEALTH

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

We substantiate the harm reduction potential of all our NGP through our Scientific Assessment Framework (SAF), a multi-stage, multi-year testing and research programme. This assessment is done for each NGP type compared to cigarettes to determine the reduced relative risk.

By the end of financial year 2020 we had the following assessment completion rates:

- 71 per cent of the SAF for our vape device, *my*blu (compared to 17 per cent in 2019)
- 34 per cent for our heated tobacco device, Pulze (compared to 12 per cent in 2019)
- 23 per cent for our tobacco-free oral nicotine pouch product, zoneX (compared to 10 per cent in 2019)

Milestones of note include completing pre-clinical work on *my*blu, including demonstrating it contains fewer and substantially lower levels of toxicants of public health concern compared to cigarette smoke. This translates to reductions in toxicity in vitro.

Our clinical studies also reveal rapid, substantial reductions in exposure to harmful chemicals for smokers transitioning to *my*blu. Our focus is now on assessing longer-term behavioural studies and broader population health assessments.

We've also demonstrated that our heated tobacco brand, Pulze, heats but doesn't burn tobacco. This absence of combustion means levels of toxicants are fewer and substantially lower in Pulze's aerosol compared to cigarette smoke. This translates to significant reductions in toxicity in vitro. We have also demonstrated that Pulze doesn't negatively impact indoor air quality for bystanders.

Finally, our ongoing research on tobacco-free oral nicotine pouches encouragingly suggests products like zoneX are likely to be the most harm reduced of all NGP.

We continue to make our research publicly available. This includes publications in peer-reviewed scientific literature, regulatory engagement, conference presentations and regularly updating our dedicated science website.

DRIVE SAFE AWARDS

This year we launched our inaugural Drive Safe Awards.

Focusing on mitigating one of the biggest risk areas across our sales operations, the awards recognise and celebrate the best examples of road and driver safety.

Ranging from simple initiatives that improve driver behaviour, to the wider achievements of having a robust road and driver safety management system, the awards form part of our increasing efforts to improve health and safety in our sales team.

Ultimately, the awards are designed to engage, encourage and empower our global sales force to become better and safer drivers for themselves, their families, colleagues and other road users. The awards are judged by our divisional sales directors, with the winners announced early in the first quarter of the new financial year.

GOVERNANCE

GOVERNANCE PERFORMANCE

Governance education modules are available to our people through a combination of online and offline learning platforms.. All employees are required to complete these modules.

E-Learning Course Title	Commentary
Code of Conduct	This course introduces and explains some of the standards of responsible behaviour that are set out in our Code of Conduct, which is translated into 32 languages.
Code of Conduct Part 2	This course looks at the Code of Conduct and considers the responsibilities of employees to act in ways that promote a culture of mutual trust and respect.
Competition Law: An Overview	This global overview provides guidance to employees on how to be aware of, recognise, and avoid becoming involved in illegal competition.
Give and Get Bribe: An Antibribery Vignette	This course is designed to refresh awareness of laws that make it a crime to bribe officials to gain a business advantage.
Modern Slavery	During the year we translated this e-learning course into a further two languages, This short overview takes a global look at the human rights abuse of modern slavery and explains how employees can raise concerns, and is now available in 12 languages.
Combatting Illicit Trade	An updated version of the original module was launched in October 2020. This course focuses on combatting illicit trade in two ways, through our collective responsibilities and by every employee taking personal responsibility.
Information Security: Phishing	This course focuses on protecting data properly and the consequences following a significant breach or leak.
Share Dealing Code	A module which provides information about Share Dealing and Market Abuse Regulations.
Data Privacy and Protection: GDPR	Aimed at markets inside the EU, focusing on GDPR, compliance obligations, data handling practices and potential financial penalties if companies fail to comply with their obligations.
Data Protection and Privacy	Aimed at markets outside the EU. This course defines personally identifiable information and provides an overview of the responsibilities and steps required to protect it.

High standards of governance are critical to our sustainability. We have a set of governance structures and practices in place designed to ensure that our company is run responsibly in the best interests of all our stakeholders.

MAINTAINING HIGH STANDARDS OF GOVERNANCE

How we conduct ourselves and our business can have wider impacts for society. Doing business in the right way, having integrity and not tolerating poor behaviour, fraud or bribery ensures we behave responsibly towards our stakeholders.

Our Code of Conduct is embedded throughout Imperial Brands and drives our responsible approach. It is aligned with the policies, internal controls and risk management processes that underpin our strategy.

The Code sets out the responsible behaviours we expect from employees in their dealings with colleagues, customers, consumers, suppliers, agents, intermediaries, advisers, governments and competitors. All employees and business partners are expected to act with integrity in accordance with the standards of behaviour set out in the Code.

We refreshed our onboarding process for new employees during the year. Code of Conduct e-learning is now accessible via an onboarding portal and is made available to employees on their first day with the Company.

SUPPLIER CODE OF CONDUCT

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

Our Supplier Code of Conduct is available in 19 languages.

RESPONSIBLE MARKETING AND YOUTH ACCESS PREVENTION

We are committed to marketing and advertising our products responsibly within the laws, codes of practice and voluntary agreements of those countries within which we operate. This year we updated our marketing standards to reflect developments in technology and our NGP portfolio. These standards are available on our website. All Imperial Brands companies and employees, as well as the agencies who work with us, adhere to our standards and local legislation. Where local legislation is stricter than our standards, this takes precedence, and where local legislation may be less stringent, then our own high standards take precedence.

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

▶ **For more information on our Marketing Standards please visit www.imperialbrands.com**

SPEAKING UP

We expect all employees and business partners to act with integrity at all times. If there are ever any concerns they can be raised independently via our Speaking Up service, which is available in 78 countries.

This year we appointed a new partner to manage this service, Got Ethics. Concerns can be quickly and easily reported online and by telephone. The reporting system guarantees security and anonymity for the complainant.

Issues raised during the year included allegations of unprofessional behaviour, pay concerns, breach of company credit policy, inappropriate use of company funds and unauthorised payment of consultants.

Our HR teams were involved in dealing with a number of these issues, whilst others were managed by the Company Secretary, with investigation support and advice provided by members of Finance, Group Security, Group Legal, HR and Internal Audit.

At all times, the anonymity of the individual making the complaint was a key consideration.

RETAILER ENGAGEMENT IN GERMANY

Germany is one of our most important markets. The German Federal Association of Tobacco Industry and Novel Products (BVTE) and its member companies, including Imperial, advocate effective enforcement of the sales age of 18 for nicotine products. To help them achieve this, the BVTE provides an e-learning tool to support our trade partners in effectively addressing youth access prevention.

The content covers age verification and the legal consequences of selling to young people, as well as recommendations for how to behave in a shop situation when dealing with underage customers. More than 2,000 retailers completed the training during the year.

The e-learning tool has been adapted to also cover oral nicotine delivery products.

INVESTOR BENCHMARKS

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

We were rated A in August 2020 by MSCI ESG Ratings. In its June 2020 ESG Rating report, Sustainalytics gave us a medium risk rating score and in September 2020, Vigeoeiris gave us a Company Reporting Rate of 86 per cent (sector average reporting rate 78 per cent).

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

Following our climate change submission to CDP in 2019, we were placed on CDP's Climate A List which consists of just 2 per cent of the thousands of companies that have disclosed their data. We await the results of our 2020 submission.

We continue to participate in the CDP Supply Chain Programme, which gathers information from our key suppliers on how they are managing their climate risks and opportunities. We are pleased to report that in 2020, all of our key suppliers invited to complete the submission responded.

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

▶ Further performance data is available on our corporate website www.imperialbrands.com

INDEPENDENT ASSURANCE

We appointed Ernst & Young LLP to provide limited independent assurance over selected sustainability content within the Annual Report ("the Report"), as at and for the period ended 30 September 2020. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

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

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

A. Select 2020 data has been independently assured by Ernst and Young LLP (EY) under the limited assurance requirements of the ISAE 3000 standard. The Assurance Opinion is available on our website.
1. Our 2020 environmental data follows the reporting period Q4 financial year 2019 to Q3 financial year 2020. This is to allow for data collection, validation and external assurance. We use the GHG Protocol Standard to inform our reporting of Scope 1 and 2 emissions. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.
2. Our health and safety data is for the full 2020 financial year. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.
3. Accidents reported do not include commuting to or from work or third parties such as distributors.

OPERATING REVIEW

A CHALLENGING YEAR

COVID-19 has had a significant impact on all our lives with the temporary restrictions and lockdowns across many countries leading to changes in consumer behaviour and in our operating environments.

However, the business has been relatively well positioned to navigate these challenges. Throughout, we have prioritised the health and safety of our people and have always strictly adhered to guidance from governments and public health authorities. It is a credit to our manufacturing and supply chain colleagues that they managed to keep the vast majority of our factories operating throughout the crisis, ensuring that our customers and consumers around the world were able to continue to enjoy their favourite brands.

Lockdowns, the restrictions on travel and the benefit of fiscal stimulus measures in several markets have resulted in some changes in consumer behaviour. These have resulted in slightly better market size trends for the Group overall as a result of several factors.

- It would appear smokers have chosen to allocate more of their discretionary spend towards tobacco. More time spent at home has resulted in consumers reducing expenditure in certain areas, such as holidays or going out;
- Fiscal stimulus measures in several markets have increased consumer discretionary spend;
- Border and other restrictions have reduced the level of illicit trade in certain markets such as the UK, resulting in better volumes in the duty paid market;
- Markets in areas such as Northern Europe have benefited from consumers having to stay at home, leading to a temporary switch in volumes from traditional holiday destinations in Southern Europe; and
- It would also appear COVID-19 has resulted in consumers going to stores less often with increases in bulk buying and greater demand for big box formats.

These positive drivers have offset the negative consumption impacts from COVID-19, which include:

- The temporary closure of certain retail channels, such as duty free and hospitality outlets; and
- Travel restrictions which have led to significantly lower demand in traditional holiday destinations, such as Spain and the Canary Islands.

COVID-19-related restrictions in some of our manufacturing facilities have disrupted production capacity and affected operating efficiencies. We expect that changes in consumer behaviour and our manufacturing operations will be temporary and will reverse once COVID-19 restrictions are relaxed. However, given the rising number of COVID-19 cases in many markets and the greater uncertainty, we have increased provisions, mainly in respect of stock and debtor positions, which has impacted profit delivery.

PERFORMANCE REVIEW

Imperial Brands comprises two distinct businesses: Tobacco & NGP and Distribution. The Tobacco & NGP business is responsible for the manufacture, marketing and sale of tobacco and NGP products, which are managed primarily through three geographic sales and marketing divisions: Europe, Americas and Africa, Asia and Australasia. It is through these three divisions, we manage performance and prioritise the allocation of resources and investment.

OUR BRANDS

JPS John Player Special · Parker & Simpson · West · Davidoff Cigarettes · Winston · blu · KNOX · PULZE · iD · skruf

TOBACCO & NGP

Tobacco

We delivered +50bps of tobacco share growth but this was largely in markets representing lower value to the Group both in terms of net revenue and profit. As a result, the gross profit contribution from the tobacco category did not grow in line with the growth in net revenue. The top five priority markets by net revenue account for 70% of the operating profit. Whilst we grew tobacco market share in three of these top five markets the growth was principally in brand families with lower net revenue per stick and accordingly less profitable. We achieve optimum growth in profitability where we are able to grow in the higher value markets and in those brands with the higher price points.

JPS

JPS tobacco sales volumes declined as price segments have compressed in many of its markets, squeezing its position as a value brand. However, net brand contribution benefited from increased pricing on fine cut tobacco variants in the UK and Australia. Product innovation remains focused on creating new formats to appeal to adult smokers.

West

We have grown share of West this year, with strong performances across all its ranges. The king size core range performed particularly well in the Middle East following the introduction of plain packaging, aided by low tar and fresh seal variants. West's make your own range has met consumer demand in Central Europe for value, with volumes strengthened by the migration of Fairwind by Players to West in Germany.

Winston

Winston's performance has benefited from a new marketing campaign, centred on the product and lifestyles of its adult consumers. The campaign's message focused around Winston's key ingredients of "tobacco, water and attitude", supported by specialised print media and brand events. This enabled Winston to maintain share within the declining US premium segment.

Davidoff

The brand continues to expand its geographic presence with the more progressive Davidoff Evolve and Reach ranges. The king size variant, Evolve, has now been launched in a total of 22 markets, doubling its volume. The new range has been particularly well received by consumers in the Middle East. Davidoff Reach, the queen size range, has been successful in Eastern Europe, with innovative crushball flavour extensions helping to maintain growth. The premium range has been affected by border closures in the duty free channel as a result of COVID-19.

Parker & Simpson

Parker & Simpson has benefited from sales growth in Australia and Poland, and improving margins in Russia. The brand continues to focus on meeting consumer demand for a more modern range of tobacco product, including sales of a crushball variant, a new flavour launch in Russia and a super-slim product for central Europe.

Next Generation Products (NGP)

During 2020, we pulled back significantly on our investment in the NGP category as we sought to improve returns and reflect on how to prioritise future investments in this segment. Towards the end of 2019, it became clear our investments were significantly underperforming against our plans and that severe corrective measures were necessary. A combination of factors, including US regulatory intervention in the vapour market, competitor behaviour, uncertainty on the part of retailers and a lower than expected take-up of our products by consumers, all contributed to our lack of success.

As a consequence, we have taken disciplined action to stabilise performance by curtailing investment, which significantly reduced the run-rate of operating losses in the second half. We have also assessed the balance sheet implications and have taken write-offs for slow-moving stock and against some intellectual property assets. These, and the reduction in sales, have significantly impacted this year's results.

Our focus has been on improving the performance, returns and capabilities of our NGP activities, while maintaining a range of options across the vapour, heated tobacco and modern oral categories. There are a number of areas where we can improve future performance. For example, by seeking to develop products that are sufficiently differentiated and that are thoroughly tested and qualified with consumers in our launch markets. We can also be more disciplined in how we invest to scale the business over time. These will be a key focus for the future.

Vapour

While the vapour category has been disrupted by regulation and adverse news-flow, our performance has been below expectations. As a result, we have reset investment levels and reduced costs, taking a more disciplined approach in order to improve returns. Despite our reduced investment in several markets, share of blu has held up relatively well and we have renegotiated trade terms to benefit margins.

Regulation and public perception of vaping in the US market has continued to evolve, with the FDA having banned flavoured pods in January and emerging health concerns with vaping products. This reinforces our view that the industry needs a clear regulatory framework that enforces high product standards and responsible sales and marketing. To support this, we submitted our Premarket Tobacco Product Application (PMTA) in the US, seeking authority to continue marketing a range of blu vapour products with various nicotine strengths and flavours.

Heated Tobacco

At the beginning of the year, we expanded distribution of our Pulze heated tobacco product and iD heat sticks in Japan, through two national key accounts. However, the roll-out has fallen short of our expectations so we limited investment and paused further expansion within Japan and to other geographies pending the outcome of the strategic review. Our roll-out in Japan has provided useful consumer feedback on the functionality of the Pulze device, the robustness of the iD stick and preferences for levels of nicotine and menthol in the products. We have also improved our understanding of the category, enhancing our in-house production and product development capabilities.

Modern Oral Nicotine

Modern oral nicotine has a relatively small presence within Europe and we have continued to explore opportunities for its development in a prudent manner while developing our capabilities. We have achieved good initial growth from our new product offerings in the first half in several European markets including Austria, Germany, Norway and Sweden. Although the business is still small, our experience in these markets has enabled us to gain valuable consumer insight and refine our approach to meet consumer needs. We have recently delayed our plans to launch new product variants in Germany, pending clarity around the regulatory landscape for modern oral nicotine following the Bavarian court ruling classifying chew bags as snus.

DISTRIBUTION

Despite the challenges of COVID-19, Logista has continued to distribute products to clients across its footprint with almost all the points of sale, products and services classified as essential by governments adopting lockdown measures.

Distribution fee income increased 0.7 per cent reflecting positive performances in Italy and Spain, offsetting some declines in France. Italy benefited from growth in NGP and a relatively resilient tobacco performance. Good performances in the convenience, pharmaceutical and courier transport segments, helped to offset tobacco declines in Spain. The trading environment in France was more challenging, with weaker tobacco volumes and a poor performance in the convenience channel.

Adjusted operating profit was down 1.9 per cent at constant currency, with ongoing cost management offset by additional cost pressures caused by COVID-19 and the impact from an asset disposal. The adjusted operating profit contribution to the Group increased 10.6 per cent at constant currency, reflecting the reduction in eliminations compared to the 2019 NGP inventory build in support of market launch activity.

In line with other Imperial owned entities, we continue to benefit from an intercompany cash pooling arrangement with Logista. In 2020, the daily average cash balance loaned to the Group by Logista was £1.9 billion, with movements in the cash position during the year varying from a high of £3.9 billion to a low of £0.5 billion. At the year end the loan position was £2.4 billion. The cash benefit was higher than normal due to favourable changes in the timing of excise duty payments.

		Full Year Result		Change	
		2020	**2019**	**Actual**	**Constant Currency**
Distribution fees	£m	**1,015**	1,015	0.0%	+0.7%
Adjusted operating profit	£m	**226**	232	-2.6%	-1.9%
Adjusted operating margin	%	**22.7**	22.9	-20 bps	-20 bps
Eliminations	£m	**13**	(14)	>100%	>100%
Adjusted operating profit contribution	£m	**239**	218	+9.6%	+10.6%

EUROPE DIVISION

POSITIVES

- Strong financial performance in the UK and Germany with better than expected market size
- Share gains in Spain and France for the first time in several years
- blu share holding relatively well, despite lower investment

NEGATIVES

- Despite strong financial performance, we lost market share in the UK and Germany
- Price/mix has been affected by adverse product mix with increased demand for value formats
- Travel bans reduced sales in global duty free and traditional summer holiday destinations

		Full Year Result		Change	
		2020	**2019**	**Actual**	**Constant Currency**
Tobacco volume	bn SE	**130.1**	134.9	-3.5%	
Total net revenue	£m	**3,569**	3,633	-1.8%	-0.8%
Tobacco net revenue	£m	**3,471**	3,505	-1.0%	-0.0%
NGP net revenue	£m	**98**	128	-23.4%	-21.9%
Adjusted operating profit	£m	**1,582**	1,694	-6.6%	-5.9%
Asset Brand % of net revenue	%	**75.2**	74.4	+80 bps	+80 bps

2019 restated to reflect volume movements of Canada and Latin America volumes to Americas (-0.3bn SE) and the inclusion of France cigar sales from the AAA division (+0.1bn SE); Auxly adjustments of £(3)m net revenue and £(5)m operating profit; and Asset Brand net revenue restated for reclassification of brands.

While our performance in Europe was disappointing with lower NGP net revenues and the associated write-downs and our overall tobacco performance was also lower, there were a number of achievements. Most notably we grew tobacco market share in France and Spain for the first time in several years and the share of *my*blu held up relatively well despite reduced investment.

Overall divisional market share declined 10 basis points with share declines in Germany and the UK, although we achieved improvements in the second half in both markets.

Our tobacco volumes declined by 3.5 per cent. This reflects several different factors with better than expected market size trends, particularly in Northern Europe such as the UK, Germany, Scandinavia and France, as consumers stayed at home and appeared to allocate more spend towards tobacco. In addition, border closures helped to reduce the flow of illicit tobacco, also benefiting the duty paid market size in markets such as the UK. Travel restrictions caused weaker volumes in global duty free and traditional summer holiday destinations, such as Spain.

Tobacco net revenue was flat on last year at constant currency, with favourable price/mix of 3.5 per cent. Price/mix was driven by relatively strong pricing in the UK and Germany and partially offset by negative product mix in those markets with increased demand for value brands and formats. Some of this increased demand has been driven by switches from illicit trade to the duty paid market. However, mix was adversely affected by the growth in private label product to customers in Germany.

The European ban on characterising flavours, introduced in May, has so far had a limited impact with the majority of consumers remaining within the cigarette category, but switching to traditional tobacco flavoured variants, and with a limited number moving to next generation products.

PRIORITY MARKETS

Priority Markets Tobacco Share	Performance
GERMANY **-90bps** (20.4%)	**12 per cent of Group net revenue** Duty paid market size benefited from border closures and the repatriation of volumes from neighbouring markets such as the Czech Republic and Poland. The premium cigarette segment held up well and there was increased demand for larger formats. Our market share declined although the sequential trend improved in the second half with Gauloises, the launch of a JPS 50s box and new larger fine cut formats. Industry revenues benefited from temporary VAT changes as part of fiscal stimulus measures. Sales of *my*blu declined as we destocked trade inventories. Our performance in modern oral nicotine was limited by the recent chewing tobacco ban, with the need for clearer category regulation.
UK **-10bps** (40.5%)	**8 per cent of Group net revenue** Financial delivery was strong as industry volumes grew as a result of lower illicit volumes and consumers staying at home. It also benefited from a temporary change in UK anti-forestalling arrangements, allowing for greater stock profits ahead of the excise increase in March. While overall share was down, we achieved improving share trends in the second half driven by Lambert & Butler and Golden Virginia. The share momentum was partly limited by some share loss following the characterising flavours ban. In vapour, consumer demand for blu PLUS and liquids remains stable and we successfully re-negotiated trade terms to the benefit of margins.
SPAIN **+10bps** (29.0%)	**4 per cent of Group net revenue** Market size deteriorated with COVID-related border closures affecting our travel retail business with reduced tourist numbers. The domestic market was also negatively affected by lockdown restrictions and reduced occasions for social smoking. We grew our total tobacco market share in both cigarettes and fine cut tobacco, supported by continued investment behind larger value formats in West, Ducados and Fortuna. In NGP *my*blu retained its market leading share position, despite lower sales as we reduced investment.
FRANCE **+10bps** (18.2%)	**3 per cent of Group net revenue** The domestic duty paid market grew in the second half of the year due to border closures, reducing the inflow from neighbouring markets and the level of illicit product. We grew our overall share of market for the first time driven by News fine cut tobacco formats which offset a decline in Royale following the removal of menthol variants in May. Our blu market share remains resilient despite lower investment levels and a successful renegotiation of trade terms.
ITALY **-10bps** (5.4%)	**1 per cent of Group net revenue** Our tobacco market share declined as we increased on-shelf prices earlier than competitors and our brand activation activities were limited by COVID. Market size was impacted by lockdown restrictions impacting travel retail and the domestic market. To capitalise on consumer demand shifts to economy cigarettes and fine cut, we implemented a range of price repositioning and portfolio initiatives for JPS and West. We remain the market leader in vapour although the category has been impacted by adverse news-flow from the US market and reduced activation activities limited consumer trial.

Our NGP performance for the year was below our original expectations. Following a write-down of inventory and destocking of the supply chain during the first half we have focused on improving trade margins and moderating investment in order to improve category returns. Despite lower activation spend the share performance of blu has remained relatively stable, with operating losses significantly reduced in the second half of the year.

Profitability was also affected by lower duty free and travel retail sales and by increased costs relating to the implementation of EUTPD II regulations for track and trace and some write-offs following the introduction of the characterising flavours ban in May. In addition, we increased provisions in respect of stock and debtor positions, given the ongoing COVID-19 uncertainties, and incurred some additional manufacturing costs arising from COVID-19 restrictions on our supply chain operations.

Adjusted operating profit was down 5.9 per cent at constant currency.

AMERICAS DIVISION

POSITIVES

- Cigarette share growth for second year running
- Tobacco net revenue driven by strong cigarette pricing
- Mass market cigars driven by Backwoods with improved supply and extended distribution

NEGATIVES

- Cigarette share growth driven primarily by discount segment
- Tobacco profitability reduced with increased provisions for COVID-19-related risks and higher manufacturing costs reflecting COVID-19 restrictions
- Disappointing NGP performance with lower vapour sales and inventory write-downs affecting profitability

		Full Year Result		Change	
		2020	2019	Actual	Constant Currency
Tobacco volume	bn SE	**21.3**	22.0	-3.3%	
Total net revenue	£m	**2,480**	2,469	+0.4%	+0.4%
Tobacco net revenue	£m	**2,409**	2,361	+2.0%	+1.9%
NGP net revenue	£m	**71**	108	-34.3%	-34.3%
Adjusted operating profit	£m	**1,032**	1,064	-3.0%	-3.4%
Asset Brand % of net revenue	%	**53.7**	54.2	-50 bps	-60 bps

2019 restated to include Canada & Latin America volumes from Europe (+0.3bn SE); Auxly adjustments of £(3)m net revenue and £(4)m operating profit; and Asset Brand net revenue restated for reclassification of brands.

The USA is our largest single market representing 31 per cent of Group net revenue. Despite tobacco net revenue growth, our overall performance was affected by lower NGP sales and stock write-downs, while our tobacco profitability was reduced by weaker price mix and various COVID-19 related costs.

Our tobacco volume performance declined 3.3 per cent, with US volumes down 2.5 per cent against market size declines of 1.0 per cent. However, this was impacted by year-on-year trade inventory movements of 700 million sticks, which if adjusted for meant our volumes were slightly up, outperforming the market volume decline through share gains. The relatively slower rate of market size decline was driven by increased home working presenting smokers with more occasions to consume, reduced switching to NGP and fiscal support packages supporting consumer expenditure.

We delivered cigarette share growth for the second consecutive year, up 10 basis points to 8.9 per cent. This was driven by good performances from Sonoma and Montclair in the growing deep discount segment and investment in Winston and Kool to maintain their shares in the declining premium segment.

We have benefited from continued strong demand in the mass market cigar segment during the year with market volumes up by around 9 per cent. We grew share by 70 basis points having regained momentum in Backwoods during the second half with improved leaf sourcing and expanded on-shelf availability through a wider network of outlets.

At constant currency, tobacco net revenue was up 1.9 per cent with price/mix of 5.2 per cent driven by continued strong cigarette pricing, partially offset by some adverse product mix from growth in deep discount brands.

Our NGP results were disappointing, with net revenues 34.3 per cent lower at constant currency driven by a destock of trade inventories and reduced promotional activities. We submitted our Premarket Tobacco Product Applications (PMTA) to the Food and Drug Administration, seeking authority to continue the marketing of a range of blu vapour products including *my*blu, blu PLUS and blu Disposable, with various nicotine strengths and flavours.

Adjusted operating profit was 3.4 per cent lower at constant currency, reflecting NGP losses and lower tobacco profit. The NGP losses were driven by a £48 million write-down of flavoured inventory following the FDA ban and lower NGP sales. Tobacco profitability was impacted by increased provisions for COVID-related risks, mainly in respect of stock and debtor positions as we took a more cautious view in light of ongoing uncertainties, and higher overheads as we invested in the tobacco sales force to drive share growth.

AFRICA, ASIA, AUSTRALASIA DIVISION

POSITIVES

- Continued share gains across all priority markets
- Price gains driven by Australia and further supported by Australia stock profits

NEGATIVES

- Adverse mix caused by negative market and product mix
- Lower NGP revenues
- Profit reduced with higher NGP losses and increased tobacco provisions for COVID-related risks and higher manufacturing costs

		Full Year Result		Change	
		2020	**2019**	**Actual**	**Constant Currency**
Tobacco volume	bn SE	**87.7**	87.3	+0.4%	
Total net revenue	£m	**1,936**	1,889	+2.5%	+4.3%
Tobacco net revenue	£m	**1,904**	1,847	+3.1%	+5.0%
NGP net revenue	£m	**32**	42	-23.8%	-23.8%
Adjusted operating profit	£m	**674**	763	-11.7%	-8.7%
Asset Brand % of net revenue	%	**59.9**	58.9	+100 bps	+90 bps

2019 volumes restated for transfer of France cigar sales to Europe from AAA division (-0.1bn SE); Auxly adjustments of £(1)m net revenue and £(1)m operating profit; and Asset Brand net revenue restated for reclassification of brands.

Although revenues benefited from volume growth and price/mix gains, overall profit delivery was impacted by further NGP losses as a result of increased investment to support the launch of our heated tobacco product and higher provisions following a cautious assessment of balance sheet exposure for COVID-19 related risks.

Tobacco volumes were 0.4 per cent up, reflecting a strong performance in lower margin markets in the Middle East, Turkey and Ivory Coast, which more than offset the impact of ongoing market size declines in the higher value market, Australia. These dynamics adversely affected market mix for the Group.

Tobacco net revenue was up 5.0 per cent at constant currency reflecting the volume gains and price mix benefit from the sell-through of inventory in Australia accumulated ahead of the September 2019 excise increase, of which around £50 million will not repeat next year. Otherwise, product and market mix was negative.

NGP performance was disappointing with net revenue down 23.8 per cent at constant currency reflecting lower vapour sales in Japan. In Russia *my*blu has achieved good retail sell out, supported by a launch of coloured devices.

Adjusted operating profit was down 8.7 per cent at constant currency driven primarily by NGP losses. Tobacco profits also declined as we took a cautious approach to the COVID-19 related risks associated with the longer supply chains and the relatively higher customer credit risk in the region. We increased our provisions for stock and debtor positions accordingly.

PRIORITY MARKETS

Priority Markets Tobacco Share	Performance
AUSTRALIA +20bps (32.7%)	**5 per cent of Group net revenue** Industry volumes declined by 8.6 per cent with increased illicit trade. Parker & Simpson continues to gain share in the growing 'fifth price tier'. Price increases and the sell-through of duty paid inventory accumulated last year benefited revenue and profit, more than offsetting the negative product mix impact from the growth in the discount segment.
RUSSIA +50bps (8.4%)	**2 per cent of Group net revenue** Financial performance benefited from improved market pricing and a reduction in discounting in the key account channel. Market share gains benefited from the launch of new crushball variants of Davidoff and Parker & Simpson meeting consumer demand for modern formats.
JAPAN +10bps (1.3%)	**1 per cent of Group net revenue** Following excise related price increases, West continues to benefit from demand for the value segment. Net revenue from vapour was impacted by a reduction in trade inventories, although *my*blu continues to retain market leadership of the relatively small vapour category. Distribution of Pulze was extended through national key accounts, although any further roll-out was paused.
SAUDI ARABIA +450bps (18.8%)	**1 per cent of Group net revenue** Sales of Davidoff and West supported market share growth, driven by better field coverage and on-shelf availability following the introduction of plain packaging in November 2019. COVID-19 related border closures led to an increase in domestic duty paid market size, which improved our financial delivery.

STRENGTHENING THE BALANCE SHEET

OLIVER TANT
Chief Financial Officer

When managing the performance of our business we focus on non-GAAP measures, which we refer to as adjusted measures. We believe they provide a better comparison of underlying performance from one period to the next as GAAP measures can include one-off, non-recurring items and recurring items that relate to earlier acquisitions. These adjusted measures are supplementary to, and should not be regarded as a substitute for, GAAP measures, which we refer to as reported measures. The basis of our adjusted measures is explained in our accounting policies accompanying our financial statements.

"We will further optimise our cost base and capital discipline to prioritise investment more effectively and deliver growing returns."

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

During 2019 we reviewed the basis for our adjusted measures and committed to making a number of changes around the treatment of certain one-off items in 2020. In the 2020 accounts this impacted the treatment of fair value gains and losses on our investment in Auxly and this is detailed later in the review.

We also committed to reviewing our use of restructuring as an adjusted measure by the end of 2020 in line with the completion of the cost optimisation programmes which were due to conclude this year. However, the COVID-19 pandemic has meant some of these programme's projects have been delayed into 2021 and so we are deferring the review of the use of restructuring as an adjusted measure until the end of that year. In 2020 therefore we have continued to treat restructuring costs as an adjusting item.

PERFORMANCE OVERVIEW

2020 proved to be a challenging year with some disruption from the COVID-19 pandemic and a poor NGP performance.

Our overall financial delivery was disappointing, with adjusted earnings per share down 5.6 per cent at constant currency, with both NGP and tobacco profits down on last year. However, the tobacco performance needs to be seen in context of COVID-19, which has had a small net benefit to the top-line but has impacted profitability as a result of additional costs. For example, we have taken a cautious position in relation to a number of the exposures in our balance sheet at a point of time when the future is uncertain, for example through the increase in inventory and bad debt provisions. These include additional provisioning in respect of our debtor book, reflecting increased credit risks and in respect of finished goods stock where we have seen changing patterns of demand, which have altered stock durations.

Our tobacco business remained resilient with volumes down 2.1 per cent, declining at a slower rate than expected given recent history, and revenue up 1.8 per cent at constant currency against last year. The revenue performance was driven by stronger market size and share albeit this was delivered in some of our lower value markets which led to a weaker than usual price/mix up 3.9 per cent versus last year (2019: up 5.5 per cent). Consequently, the revenue performance was not as high as may have been expected given the headline market size and share positions.

Tobacco operating profit was down 3.1 per cent at constant currency having been impacted by the additional costs relating to COVID-19, regulatory compliance and overheads.

The NGP performance was impacted by new regulation and weaker than expected trading which has led to lower revenue as well as provisions for slow moving stock and asset impairments in the year.

ACTIVE CAPITAL DISCIPLINE

We continue to focus on capital discipline and this year's strong cash performance will be supplemented by the disposal of our Premium Cigar Division, which completed in October 2020, and the decision at the interim results to rebase the dividend.

Our headline adjusted operating cash conversion of 127 per cent benefited from VAT and duty payment date changes in Western Europe as a result of COVID-19, which amounted to c.£0.7 billion or 20 per cent cash conversion, which we expect to reverse next year. Whilst we completed the disposal of our Premium Cigar business after our year end, with the receipt of the majority of the proceeds, we did receive a £83 million non-refundable cash payment in 2020 and have deferred €407 million into 2021. These proceeds will predominantly be used to pay down debt.

At the interim results in May 2020 we announced a rebasing of our 2020 dividend policy by one third. We have adopted a progressive dividend policy, growing annually from the revised level, taking into account underlying business performance.

Effective capital allocation remains at the core of our decision making and we aim to use continued strong cash generation, the shareholder dividend savings and proceeds from the disposal of Premium Cigars to reduce our gearing to the lower end of our 2-2.5 times target range by the end of 2022. As of 30 September 2020, our adjusted net debt to EBITDA was 2.7 times (2019: 2.9 times).

CASH FLOW AND NET DEBT

Our 2020 cash delivery of £1.3 billion was supported by a £1.0 billion working capital inflow driven by c.£0.7 billion of COVID-19 related timing benefits. Excluding these COVID-19 related timing benefits our 2020 underlying cash conversion was c.107 per cent with an underlying net cash inflow of £0.6 billion. The COVID-19 working capital benefits were materially in our Logistics business due to changes in duty payments dates in Italy offsetting accelerated payments in France. In the UK we have also seen a £220 million deferment of VAT due to COVID-19. We expect these to unwind next year, providing a c.£0.7 billion or 20 per cent cash conversion headwind in 2021.

Excluding COVID-19, this year's underlying working capital inflow was strong at c.£300 million, which included a c.£200 million higher working capital position in Australia as the benefit seen last year reversed in line with guidance in last year's results. This cash outflow was offset by improvements in a number of markets, including the US.

Capital expenditure saw a year on year reduction of c.£80 million as we saw a reduction in NGP-related spend and continued tight control of tobacco investments. Restructuring cash costs were in line with last year.

After including £0.3 billion of lease liabilities on the adoption of IFRS 16, reported net debt decreased by £0.8 billion to £11.1 billion and adjusted net debt decreased by £1.1 billion to £10.3 billion at actual rates.

During the year we repaid two bonds totalling £1.6 billion equivalent. The denomination of our closing adjusted net debt was split approximately 68 per cent euro and 32 per cent US dollar.

As at 30 September 2020, the Group had committed financing in place of around £16.2 billion, which comprised 29 per cent bank facilities and 71 per cent raised from capital markets. During the year a new revolving credit facility of €3.5 billion replaced the existing revolving facilities of £3 billion equivalent and bilateral facilities totalling €1.7 billion were arranged whilst one bilateral facility of €300 million was cancelled.

GROUP RESULTS – CONSTANT CURRENCY ANALYSIS

£ million (unless otherwise indicated)	Year ended 30 September 2019	Foreign exchange	Constant currency movement	Year ended 30 September 2020	Change	Constant currency change
Tobacco & NGP Net Revenue						
Europe	3,633	(35)	**(29)**	**3,569**	**-1.8%**	**-0.8%**
Americas	2,469	2	**9**	**2,480**	**+0.4%**	**+0.4%**
Africa, Asia and Australasia	1,889	(35)	**82**	**1,936**	**+2.5%**	**+4.3%**
Total Group	7,991	(68)	**62**	**7,985**	**-0.1%**	**+0.8%**
Tobacco & NGP Adjusted Operating Profit						
Europe	1,694	(12)	**(100)**	**1,582**	**-6.6%**	**-5.9%**
Americas	1,064	4	**(36)**	**1,032**	**-3.0%**	**-3.4%**
Africa, Asia and Australasia	763	(23)	**(66)**	**674**	**-11.7%**	**-8.7%**
Total Group	3,521	(31)	**(202)**	**3,288**	**-6.6%**	**-5.7%**
Distribution						
Distribution fees	1,015	(7)	**7**	**1,015**	**+0.0%**	**+0.7%**
Adjusted operating profit	232	(2)	**(4)**	**226**	**-2.6%**	**-1.9%**
Group Adjusted Results						
Adjusted operating profit	3,739	(33)	**(179)**	**3,527**	**-5.7%**	**-4.8%**
Adjusted net finance costs	(450)	2	**19**	**(429)**	**+4.7%**	**+4.2%**
Adjusted EPS (pence)	272.3	(2.6)	**(15.3)**	**254.4**	**-6.6%**	**-5.6%**

GROUP EARNINGS PERFORMANCE

£ million unless otherwise indicated	Adjusted 2020	Adjusted 2019	Reported 2020	Reported 2019
Operating profit				
Tobacco & NGP	**3,288**	3,521	**2,587**	2,074
Distribution	**226**	232	**135**	137
Eliminations	**13**	(14)	**9**	(14)
Group operating profit	**3,527**	3,739	**2,731**	2,197
Net finance costs	**(429)**	(450)	**(610)**	(562)
Share of profit of investments accounted for using the equity method	**45**	55	**45**	55
Profit before tax	**3,143**	3,344	**2,166**	1,690
Tax	**(642)**	(642)	**(608)**	(609)
Minority interest	**(98)**	(107)	**(63)**	(71)
Earnings	**2,403**	2,595	**1,495**	1,010
Earnings per ordinary share (pence)	**254.4**	272.3	**158.3**	106.0

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

£ million unless otherwise indicated	Operating profit 2020	Operating profit 2019 restated	Net finance costs 2020	Net finance costs 2019	Earnings per share (pence) 2020	Earnings per share (pence) 2019 restated
Reported	**2,731**	2,197	**(610)**	(562)	**158.3**	106.0
Acquisition and disposal costs	**26**	22	**–**	–	**2.8**	2.3
Amortisation & impairment of acquired intangibles	**523**	1,118	**–**	–	**49.2**	116.4
Excise tax provision	**(20)**	139	**–**	–	**(1.7)**	13.0
Fair value of loan receivable	**62**	(3)	**–**	–	**6.6**	(0.3)
Sale of intellectual property	**–**	(7)	**–**	–	**–**	(0.7)
Fair value adjustment of acquisition consideration	**–**	129	**–**	–	**–**	13.5
Fair value and exchange movements on derivative financial instruments	**–**	–	**176**	107	**25.3**	8.0
Post-employment benefits net financing costs	**–**	–	**5**	5	**0.4**	0.1
Restructuring costs	**205**	144	**–**	–	**18.4**	11.4
Tax on disposal of Premium Cigar business	**–**	–	**–**	–	**2.0**	–
Previously unrecognised tax credits	**–**	–	**–**	–	**(7.1)**	–
Uncertain tax positions	**–**	–	**–**	–	**8.2**	–
Tax on unrecognised losses	**–**	–	**–**	–	**(4.3)**	6.4
Items above attributable to non-controlling interests	**–**	–	**–**	–	**(3.7)**	(3.8)
Adjusted	**3,527**	3,739	**(429)**	(450)	**254.4**	272.3

2019 restated to include the fair value of loan receivable gain and sale of intellectual property relating to Auxly and the impact of the change to adjusted performance measures.

TOBACCO REVENUES IMPROVE, NGP DISAPPOINTS

Tobacco volumes fell 2.1 per cent, a significant improvement on last year (2019: 4.4 per cent reduction) as we saw better than expected market size across a number of our larger markets as consumers appeared to change behaviours and reprioritise disposable income during the COVID-19 pandemic, combined with a decrease in illicit trade. Whilst we delivered share growth in seven of our 10 priority markets, two of our more valuable markets showed share declines. We experienced a drag on our overall price/mix as a result of the fact that much of our growth was experienced in lower value markets with downtrading also evident. Consequently, the full benefit of good size and share performance did not flow through to the bottom line.

As a result of the impact of market and product mix tobacco price/mix was 3.9 per cent, slightly below the 5.5 per cent delivered in 2019. Overall tobacco net revenue grew by 1.8 per cent at constant currency.

The impacts of a sub optimal market and product mix dynamic led to a lower tobacco gross profit when compared with 2019. In addition, there were a number of other factors this year which have depressed tobacco performance with operating profit down 3.1 per cent in constant currency.

As a result of COVID-19 and its disruption to our ability to operate as planned in certain locations, we experienced some manufacturing inefficiencies. In addition, we have seen a number of changes in the risks to working capital balances, particularly in stock and debtors, reflecting changes in customer and consumer behaviours and we have made some additional provisions to protect against these increased risks.

The impact of these COVID-19 related additional costs amounts to £90 million. We have also seen an increase in costs associated with the implementation of EUTPD Track & Trace, payment of fines (which are being appealed) imposed by the competition authorities on the tobacco industry in the Netherlands and Ukraine, and a tax liability in Spain, which together contributed an additional £50 million of cost this year. We do not expect the majority of these costs to reoccur.

NGP revenues were down by 27 per cent at constant currency, which offset the growth in tobacco revenues reducing Group net revenue growth to 0.8 per cent at constant currency.

NGP operating loss was down 34 per cent at constant currency. The impact of the flavour ban in the US not only disrupted NGP sales in that market but also had a contagion effect into European and Asian markets. Consequently, the vapour category did not develop as we had forecast and sell out was below expectations. This resulted in us making an additional £97 million NGP slow moving stock provision in the year and a £27 million impairment of certain NGP intangible assets.

On a reported basis, Group operating profit increased by 24.3 per cent, materially driven by the lapping of the impairment charge taken last year relating to the disposal of the Premium Cigar business.

Last year's impairment charge was partially reversed by £35 million in the year due to the finalisation of the agreed sales price for the business and the revaluation of assets for foreign exchange differences. It is expected that on completion of the divestment, cumulative foreign exchange gains of approximately £250 million to £350 million, that have historically been recognised in reserves, will be recycled to the income statement.

The restructuring charge for the year of £205 million (2019: £144 million) relates mainly to our second cost optimisation programme announced in 2016. The total restructuring cash flow in the year ended 30 September 2020 was £145 million (2019: £146 million).

Adjusted net finance costs were lower at £429 million (2019: £450 million). This is primarily due to our active management of the debt portfolio to align with our strategic disposal initiatives. Reported net finance costs were £610 million (2019: £562 million), incorporating the impact of the net fair value and exchange losses on financial instruments of £176 million (2019: losses of £107 million) and post-employment benefits net financing costs of £5 million (2019: £5 million).

Our all-in cost of debt decreased to 3.4 per cent (2019: 3.6 per cent) as we continue to optimise our debt portfolio and our interest cover increased to 8.9 times (2019: 8.8 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Our effective adjusted tax rate was 20.7 per cent (2019: 19.1 per cent) and the effective reported tax rate is 28.1 per cent (2019: 36.0 per cent). The increase in the effective adjusted tax rate was due to a less favourable profit mix. The adjusted tax rate is lower than the reported rate due to limited tax relief on adjusting items.

We expect our effective adjusted tax rate for the year ended 30 September 2021 to be around 23 per cent. The increase in rate is due to legislative changes in several jurisdictions and the expiry of certain tax agreements.

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

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

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

Adjusted earnings per share were 254.4 pence (2019: 272.3 pence), down 5.6 per cent at constant currency and down 6.6 per cent at actual rates, reflecting operating profit weakness as well as a higher effective tax rate.

Reported earnings per share were up 49.4 per cent at 158.3 pence (2019: 106.0 pence), mainly impacted by the one-off accounting adjustments made last year relating to the disposal of Premium Cigars. The strengthening of sterling against the euro, Australian dollar, which delivers lower revenue/profit, and Polish zloty which increases manufacturing costs, has led to lower sterling equivalent profits by around 1 per cent.

COST OPTIMISATION

We optimise our cost base to realise operational efficiencies. Our first optimisation programme announced in January 2013 delivered savings of £305 million per annum from September 2018 at a cash restructuring cost of around £600 million. This first programme has now concluded although there remain some cash costs.

The second cost programme, announced in November 2016, is now expected to deliver c.£320 million of annual savings with £303 million of annual savings still expected from September 2020 and a further c.£16 million of savings from September 2021 as some of the original programme will now be initiated in 2021 due to the impact of the COVID-19 pandemic. The programme is expected to be completed at a cash restructuring cost of c.£650 million, a £100 million reduction against our original estimates.

The second programme continued to focus on reducing product cost and overheads and realised cost savings of £63 million in 2020 which brings the cumulative cost savings from both programmes to £608 million, with £305 million coming from the first and £303 million from the second.

Cash restructuring costs in the year from the first programme were £16 million (2019: £24 million) and £109 million (2019: £108 million) for the second, bringing the cumulative net cash cost of the two programmes to £1,066 million, with a cash cost of £559 million for the first and £507 million for the second.

CAPITAL ALLOCATION

Capital discipline is a key objective, with commercial analysis and hurdle rates underpinning returns. It is again clear that our investments in NGP have not returned at the levels expected.

Consequently, in the year we significantly reduced investment in NGP with underlying operating profit performance in the second half improved. Despite reduced investments, we have maintained a range of options across different markets and NGP categories to allow future strategic choices.

We typically seek an overall internal rate of return in excess of 13 per cent across the investments we make in order to support our investment choices and underpin returns for shareholders.

Despite the drag from NGP, our in year ROIC measure is slightly ahead of this internal rate of return at 13.2 per cent but lower than last year (2019: 14.4 per cent) due to the profit reduction.

DIVIDEND PAYMENTS

The Group has paid two interim dividends totalling 41.70 pence per share in June 2020 and September 2020, in line with our quarterly dividend payment policy to give shareholders a more regular cash return.

The Board approved a further interim dividend of 48.00 pence per share and will propose a final dividend of 48.01 pence per share, bringing the total dividend for the year to 137.71 pence per share. The third interim dividend will be paid on 31 December 2020 with an ex-dividend date of 26 November 2020. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2021, with an ex-dividend date of 18 February 2021.

BREXIT

The Group has assessed the potential impacts of the UK not concluding a trade deal with the EU prior to 1 January 2021.

The key risks identified include: the 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 arrangements.

In the event of a no trade deal, we estimate there could be additional costs of around £75 million relating principally to import duties and the impact on existing tax arrangements.

NEW ACCOUNTING STANDARD

We adopted the new accounting standard IFRS 16 "Leases" on 1 October 2019.

Implementation of IFRS 16 has resulted in the recognition of 'right of use assets' which are depreciated over the period that they are leased and a corresponding interest bearing lease liabilities creditor, which are paid down over the life of each lease.

The impact associated with the adoption of this standard is disclosed in note 1 of the accounting policies.

ADJUSTED PERFORMANCE MEASURES

In managing the business, we focus on adjusted performance measures as we believe they provide a better comparison of performance from one period to the next.

As announced last year, we refined our approach to the use of adjusted performance measures by focusing more on the performance drivers of our core activities of the manufacture, sales and marketing of tobacco and NGP products.

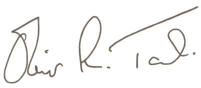
The changes we have made to our adjusted performance measures include the exclusion of one-off gains and losses from asset disposals and other non-recurring activities that do not relate directly to the core activities.

In 2020 valuation losses related to our investment in Auxly of £62 million were excluded from adjusted profit as a result of this change. Income from the sale of intellectual property and a valuation gain of £10 million on Auxly were included in adjusted profit in 2019 and as a consequence of this the 2019 results have been restated to provide more understandable like-for-like comparisons.

The write-down of the convertible debt owed by Auxly reflects the challenges faced by the business due to the slower than anticipated evolution of the Canadian cannabis sector, in part the result of the economic impact of COVID-19, putting into doubt Auxly's ability to repay the debt in full on its due date.

Last year we said that we would undertake a review of the treatment of restructuring costs as an adjusting item, considering whether or not the exclusion of these costs from adjusted profit was appropriate.

In light of certain COVID-19 related delays to the conclusion of the second cost optimisation programme that was previously due to end in 2020, this review has been deferred into the next year.



OLIVER TANT
Chief Financial Officer

MANAGING RISK

The identification, assessment, and appropriate management of our enterprise risks facilitates the achievement of the Group's strategic aims.

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

The current COVID-19 pandemic has highlighted, above any other recent event, the value of an effective risk management approach. This event, unprecedented in modern times, has required reliance upon both existing approaches and new responses to the management of risks across the business.

The uncertainty created by the pandemic, and the unknown severity of future impacts increases the potential for both marketplace disruption and crystallisation of other risks (as detailed in the principal risks and uncertainties on the following pages).

The predictability of potential operational outcomes resulting from these risks varies across our respective product categories. The maturity of tobacco markets and related processes creates a higher level of predictability than the NGP categories, reflected in their relative profile in current plans, with future strategies currently being evaluated.

RISK MANAGEMENT

Our risk management framework ensures accountability for the identification, assessment, and mitigation of risks throughout the business.

Whilst it is accepted that no approach can guarantee the identification and mitigation of all risks, our framework aligns the management of risks and delegated authorities to the Board's defined risk appetite in achieving our strategic objectives, and provides reporting to provide oversight of the effectiveness of the approach.

The diagram (adjacent) shows the key activities within our risk management framework, and the related roles and responsibilities, which ensure an effective and continuous risk management process.

The Board is ultimately accountable for managing the Group's risks and is responsible for setting the Group's risk appetite aligned to achievement of strategic objectives.

RISK APPETITE

The level of risk the Group is willing to take is articulated in our risk appetite statement, which is reviewed and approved by the Board to ensure it remains consistent with the Group's strategy and the environment we operate in.

Our risk appetite considers a number of different dimensions, which balance commercial performance with managing our business in a sustainable and compliant manner. This informs the current strategy of the Group and guides our development of new strategies. Upon approval of the new strategy by the Board, this risk appetite statement will be reviewed by the Board once more to ensure our risk appetite and corporate strategy remain aligned.

During the year this risk appetite has continued to be embedded within our wider risk management framework through the reporting and ongoing development of appropriate leading and lagging risk indicators which measure our exposure to risk and support the ongoing alignment of our risk management and internal control systems to ensure compliance with the agreed risk appetite.

These leading and lagging indicators are embedded within our regular reporting to the Audit Committee, together with explanations of variances against agreed thresholds and mitigating actions being undertaken to ensure risks remain within risk appetite.

ASSESSMENT AND EVALUATION OF RISKS

Our risk management approach focuses on the assessment of current and emerging risks and the effectiveness of related mitigating actions. This clear focus better establishes prioritisation of actions and resources required. This is the principle employed in risk assessment activities undertaken with functions across the business. In completing these assessments we work with the functions themselves, and also draw on a broad spectrum of other relevant inputs enabling cross-functional and second line views to be considered. This better ensures robust evaluation of risks and mitigations, notably in relation to emerging risks.

The risk model continues to use multiple factors in the assessment of risk, as represented in the diagram below.

Our Group Risk team works with functions, strategic business units, and key stakeholders across the business as part of ongoing risk assessment activities. In completing these assessments we adopt a dynamic approach and have moved away from the traditional template self-assessment completion to a conversational approach. The approach obtains richer and more balanced perspectives on risks, with greater insight on mitigations, notably those with cross-functional dependencies, significantly important in a large organisation.

The assessment of risks is aligned with our business planning cycle and strategic objectives. Risks are assigned to both relevant product category and the core business process to which they relate. This provides context over the relative importance to current and future impacts to Group strategy, and ensures appropriate stakeholders are considered in the design of operational process and change initiatives.

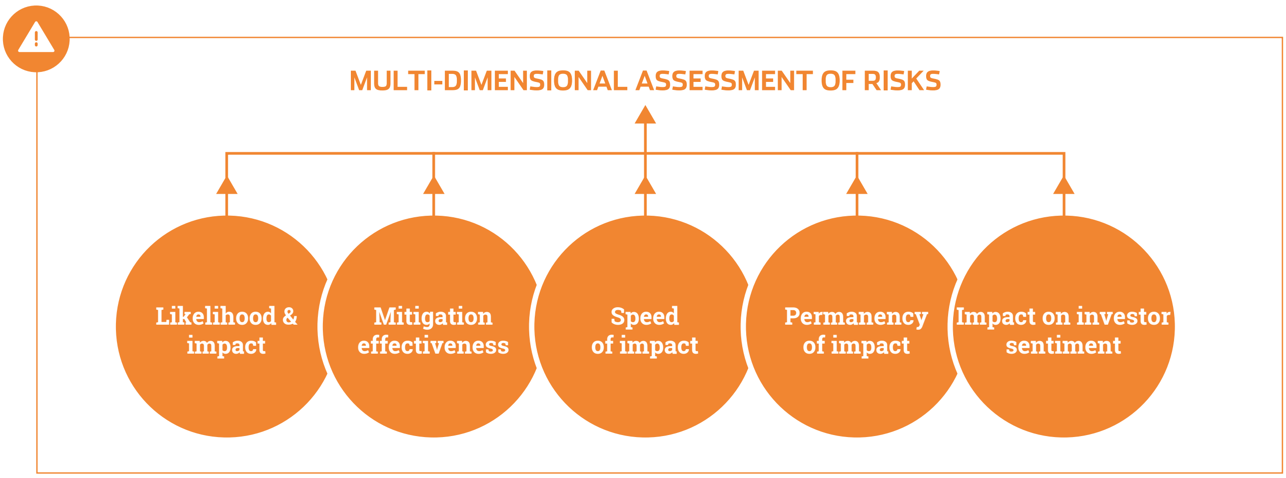
High impact risks identified in functional assessments are consolidated for review by senior management to ensure an effective "top-down" input from both ExCom and the Board, along with consideration of additional or emerging risks on a three-year horizon (aligned to the viability assessment). This provides both operational and strategic perspectives in the assessment of the risks we face as a business, and ensures consideration of these and emerging risks in the development of Group strategy.

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

RISK LANDSCAPE

The Group operates in highly competitive (multi-national) markets and so faces general commercial risks associated with a large FMCG business (including the effect of movements in foreign exchange rates).

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



RISK MANAGEMENT FRAMEWORK

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

1st Line of Defence	Local management owns the management of risks and it is their responsibility to identify and mitigate these risks.
2nd Line of Defence	Central functions and committees, employing subject matter experts, develop appropriate policy, process, and control structures in line with the Board's risk appetite and provide support to first line management to best ensure their effective ongoing application
3rd Line of Defence	Our Internal Audit team independently reviews compliance with, and the effectiveness of, our risk management and internal control system.

RISK MANAGEMENT APPROACH

Each identified risk is assigned to a centre of expertise (CoE), predominantly second line functions, to ensure appropriate risk management approaches are defined, and to provide oversight and support to operational management in effectively implementing such approaches across our global footprint.

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

Our Finance function is a good example of a second line function which performs both roles. Finance has responsibility for the financial policies, standards and best practice to be followed by operational finance management across the Group, as documented in our Finance Manual. Additionally, Finance performs a subject matter expert role through Group-wide initiatives (e.g. financial closing process improvements or implementation of standardised management reporting).

Compliance with Group and local reporting requirements is confirmed by finance management across the Group, providing a robust basis for the central Finance team to appropriately manage the Group financial reporting processes and enabling the Board to discharge its reporting responsibilities.

During this financial year we have performed an assessment of the effectiveness of our second line of defence as part of our ongoing evaluation of our risk management framework and to support continuous improvement of our effectiveness in managing risk. No material weaknesses were identified in the oversight provided by the second line of defence of key risks as the result of this exercise. However, it is acknowledged that improvements can always be made and so we will be looking to learn both from experiences over the year and from the assessment itself in order to strengthen both process and behaviour, so as to further underpin our governance, risk and compliance framework.

OPERATIONAL RISK MANAGEMENT

Operational management is held accountable for the management of those risks applicable to it and for ensuring compliance with our Group policies and standards. Our Group Control Matrix (GCM) brings together all the expected minimum controls from these policies and standards, to provide a single source of internal controls expected to be performed in order to mitigate the identified risk in line with the Board's risk appetite.

The operating effectiveness of these GCM controls is assessed on a regular basis by management, as well as through Internal Audit activities. Operational management, at Group and local level, is required to certify its compliance with the Code of Conduct and the Group's policies and standards at both the half-year and full-year.

RISK OVERSIGHT AND SUPPORT

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

ROLE OF AUDIT COMMITTEE

The Audit Committee is responsible for approving the risk management approach on behalf of the Board, and for oversight of its ongoing effectiveness. The role of the Audit Committee and insight into how it has reviewed the risk management approach is described in the section on page 76.

CLIMATE CHANGE

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

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

By ensuring the assessment of the risks and opportunities on an enterprise wide basis, with top-down input and future oversight from our ESG committee, we have created a framework which operationalises the mitigation of climate risk and creates accountability across the organisation.

We consider ourselves well positioned to manage and mitigate climate risks through a number of measures, including: our ongoing commitment to reducing our environmental impact through long-term targets; investment in measurement systems and infrastructure; and working in partnership with our suppliers to manage impacts beyond our direct operations.

We are committed to increasing climate related disclosure and implementing recommendations from the Task Force on Climate-related Financial Disclosure (TCFD), and are pleased to provide related information on our website.

PRINCIPAL RISKS

In the following section we highlight the principal risks we face and identify the mitigations that we have in place to manage the crystallisation of such risks. Not all of these principal risks are within our direct control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment. The risks are reported at a consolidated Board level with key underlying risks identified.

PRINCIPAL RISK	CHANGE IN YEAR

Market environment
Ensuring our insights provide us with an ability to predict and/or manage effective responses to key market dynamics and related consumer trends prevents the significant impacts caused by a misalignment to consumer demand
 	
Risk profile
↑
	COVID-19 related changes
	• The potential impacts of the COVID-19 pandemic have had, and will continue to have, a significant impact on the market environment
	• The ability to accurately predict the market landscape over a three-year horizon could be further complicated by regulator actions and their unintended consequences including:
	  • The response to recent pressures on health services and related costs could increase the potential for further adverse product regulation impacting specifications, restrictions on the places products can be consumed; and
	  • Increased risk of excise and other product related taxes as a means of raising additional public revenues
	• The wider economic impacts of COVID-19 including recession in markets, increasing unemployment and/or austerity measures could result in pressures on consumer spend and disposable income, impacting the size of the legitimate tobacco market
	
	Other changes
	• The speed and severity of product regulatory change in the US could be influenced by the result of the recent US election. A change of administration could result in a furthering of agendas to disrupt the consumption of nicotine products
	• In markets where consumer affordability is impacted by high product excise the risk of increased volume of illicit trade is created as the price gap between this non-duty paid product and legitimate product widens. Unintended consequences of tobacco control actions by governments have, and continue to result in opportunities for the sale of illicit product

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT

- Failure to accurately predict or identify current and emerging consumer trends could result in lost opportunities, and reduced volumes should our products lose consumer relevance
- Product regulatory change can restrict: product specification (e.g. menthol ban), consumer interaction, product supply, and can place restrictions on consumers' ability to enjoy the product, potentially impacting sales volumes and market size
- Increases in excise or other related taxes impact consumer choices as governments use tobacco control as a means of raising public funds. Sales may fall because of higher prices driven by excise, with consumers reducing consumption or buying cheaper non-duty paid illicit product
- Counterfeit and illicit trade thrive in high excise environments, reducing the size of the legitimate tobacco market, increasing risks to consumers from non-compliant product, and financing organised crime
- Inferior, unregulated counterfeit product could result in damage to our brands

MITIGATION

- We continually monitor consumer activity at both a local and Group level. This enables an effective means of profiling and predicting changes to best adapt the Group's product portfolio
- Specific enhanced and repeated consumer insights analytics work in relation to purchase behaviour conducted since beginning of the pandemic, including impacts on cross-border product flows
- We engage with authorities to provide informed input to the unintended consequences of disproportionate changes in excise and product regulation, supported by our Regulatory, and Scientific affairs teams
- Robust internal policy and procedures exist to best ensure compliance within our own supply chain and maintain strong standards and controls for our business and our first-line customers to prevent diversion of our products
- We work alongside and partner with governments and law enforcement agencies around the world to prevent the illicit supply of tobacco products

OPPORTUNITY

- The ability to meet consumer needs, and to better inform product innovation is a key potential driver of commercial success
- The development of the Group strategy includes analysis of planned and potential changes in product taxation to best identify and ensure investment opportunities across its range of products
- The lessons learned from tobacco legislation and the increase in illicit trade as an unintended consequence of regulatory change highlight the opportunity for rational discussion and appropriate sanctions to ensure harm reduction products remain an attractive alternative potential choice for the world's smokers
- Periods of regulatory uncertainty, or change, offer opportunities for companies able to meet the evolving requirements
- Tailored product portfolio offerings at a local level, within and across categories, allow for any relative commercial advantage from excise mechanisms to be realised

PRINCIPAL RISK

Consumer focus

We continuously seek to ensure our portfolio of products remains relevant and attractive to adult smokers. Failure to ensure that portfolio pricing, brand proposition, and quality are aligned to consumer/market trends and demands could result in lost opportunities and reduced volumes

Risk profile

CHANGE IN YEAR

COVID-19 related changes

- Consumer trends in the period have highlighted both risks and opportunities in the alignment of the Group's product portfolio to changes in consumer choices
- Increased consumer price consciousness, with "down-trading" by consumers from their previous choice to lower cost alternatives. This value proposition also results in choices between products and categories resulting in increasing demand for big-box and fine-cut (roll-your-own) formats
- The channels through which consumers purchase product formed part of changes in consumer trends in market. Restrictions on sales outlets in some countries, and wider changes in consumer shopping choices highlight both short and medium-term requirement to ensure agility to align with these changes in consumer behaviour and to manage and develop ongoing customer relationships

Other changes

- The continued emergence, and acceptance, of NGP products in the market place offers consumers product choice, creating both risks and opportunities for the Group's portfolio

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT	MITIGATION	OPPORTUNITY
• Misalignment of the Group's product portfolio to consumer preferences will result in lower sales as consumer needs are not satisfied • Failure to act upon consumer insights in a timely manner prevents opportunities from being seized and impacts growth • Changes in patterns of consumer purchases, notably the choice of purchase location, create the risk that the Group is not present in the relevant channels. Failure to identify and manage these changes could result in lost sales revenue, and market share • Brand propositions not aligned to consumer desires could result in reduced attractiveness, negatively impacting sales volumes • Failure to manage the successful completion of US PMTA process impacts ability to sell current blu portfolio in US market • Product development and/or launch impacted by IP constraints limiting the ability to respond to competitor offerings • Failure to accurately predict product demand, notably NGP, could result in excessive stock build and requirement to provide for or write-off slow-moving or obsolete stock impacting profitability	• Robust consumer analysis and production planning processes are integrated, enabling agile manufacturing to align with changes in consumption patterns • Specific enhanced and repeated consumer insights analytics work in relation to purchase behaviour conducted since beginning of pandemic • Product development processes are designed to develop consumer products based upon robust analysis and testing • Specialist in-house innovation function with expertise in product development • Alignment of Group Science and Innovation processes, ensuring product development and resultant proposition is supported by robust science to support product benefits • Group Scientific affairs provide robust fact-based evidence in support of the PMTA process • IP risks are managed by subject matter experts within the Group, ensuring protection of our own innovations and best enabling the identification of potential issues in relation to third-party IP in the development process	• The development of products and/or relevant route to market and pricing strategies that meet and drive consumer demands throughout their evolving journey • Speed and quality of innovation enables the drumbeat of consumer activations that ensure both brand relevance and continued brand loyalty

PRINCIPAL RISK	CHANGE IN YEAR
Legal and regulatory compliance We seek to comply with relevant legal and regulatory requirements. Failure to comply with local and international laws and regulations could result in financial penalty, regulatory censure, and reputational damage **Risk profile** →	**COVID-19 related changes** • Requirements put in place by regulators to manage COVID-19 impacts resulted in increased complexity and cost in relation to the continued operation of the Group's factory operations • The costs attributable to this compliance requirement will continue into FY21, with further measures possible should the pandemic not subside • The Group is aware that in periods of recession and austerity the likelihood of litigation may increase due to both public and consumer economic need **Other changes** • The Group, in common with other large multi-national organisations, continues to manage the requirements of increasing legal and regulatory obligations across the business
Product supply A failure in the Group's supply chain could result in a delay or an inability to supply product to market **Risk profile** ↑	**COVID-19 related changes** • The pandemic highlighted the risks that both local and national regulation and related restrictions can have on the business, including the potential for the temporary closure of Group factories impacting production • Similarly, restrictions on supplier ability to manufacture or ship materials has been a key risk during the pandemic, with geographic concentrations of suppliers, and quality requirements managed • The continued availability of appropriate logistics providers in a cross-border supply chain could increase in complexity and cost for both raw materials and finished product if further restrictions are implemented in key geographies **Other changes** • The requirement for compliance in the period with EU product track and trace regulations has increased the level of complexity in manufacturing and related planning processes, and created key reliance throughout the supply chain on the continued availability of core systems. This additional complexity reduces the ability of the Group to reduce costs

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT	MITIGATION	OPPORTUNITY
• Failure to comply with regulations could result in investigations and the enforcement of financial or regulatory censure • Criminal investigation resulting from allegations of improper behaviour have the potential for reputational damage regardless of eventual outcome, potentially impacting the Group's relationship and sentiment with external stakeholders including investors and financial institutions • The cost of defending any allegations can be significant, with no guarantee of recovery of these costs in the event of a successful defence • Investigations or allegations of wrongdoing can result in significant requirement for management time, potentially reducing focus on other operational matters	• The Group's Code of Conduct and values articulate the behaviours we expect from all our people, with compliance certified by management across the business • The Group's policies and standards mandate that employees must comply with legislation relevant to both a UK listed company and to local law • Expertise at Group and local level for areas of legal compliance to provide advice and support in the development of policy, process, training, and monitoring, including international sanctions • In the event of an investigation (which may or may not result in actions against us), we cooperate fully with the relevant authority and will continue to do so • The Group supports and promotes the prevention of youth access to its products	• The effective delivery and communication of our ESG strategy (including legal and regulatory compliance) creates an opportunity for external stakeholders, and potential partners/employees to better understand the ethical approaches taken by the Group to ensure that it acts as and is a responsible corporate citizen
• Loss of manufacturing capacity could impact the Group's ability to meet short-term production demands • Failure to supply markets could result in loss of short-term sales volume, with the additional risk of impacts to loss of consumer loyalty potentially impacting longer-term volumes • Product quality issues could impact customer satisfaction, potentially damaging brand equity and future sales where negative media coverage is received • Failure to achieve expected cost saving initiatives could result in reduced margin and profitability • A lack of availability of raw materials could impact the achievement of planned manufacturing capacity, potentially impacting short-term supply to markets • Key ESG related risks exist in our raw material and component supply chains. Failure to manage these risks could cause reputational damage to the Group	• Robust demand planning process, and supply chain management enhanced with increased planning cycle frequency and review aligned to changing market environment • Creation of additional safety stocks for non-leaf materials at the beginning of the pandemic and ongoing management of requirements aligned to sales forecast • Production capacity planning includes continuity measures in the event of machine failure or site issue • Leaf and raw material supply processes are in place covering both continuity risks and ESG related matters including farmer welfare, agronomy, and human rights and child labour issues with continuous improvements on an ongoing basis • Ongoing supplier reviews undertaken to best ensure continuity of supply, with additional review and learnings from COVID-19 experience to date incorporated into business processes • The Group continues to act in accordance with both legal requirements and the principles of being a responsible manufacturer	• Lean manufacturing continues to supply quality, compliant, products whilst improving agility and scalability to cater for demand shifts and opportunities to further contain underlying costs

PRINCIPAL RISK	CHANGE IN YEAR
People and organisation Inability to attract, retain, and develop required capabilities to achieve strategic objectives in a safe working environment and a positive culture aligned to the changing multi-category business and the welfare of its employees **Risk profile**	**COVID-19 related changes** • Throughout the pandemic the Group's priority has been the safety of its people with standards employed across all our operations that exceed local requirements and best ensure the welfare of our people • Additional costs associated with the decision to ensure our people work in an environment that maintains their safety over and above regulatory requirements have been incurred during the current pandemic and these will continue until the risk has resided • The restrictions in place during the pandemic place pressure on the ability to deliver training and development to our people. Steps have been taken to provide extensive online learning and development opportunities to ensure our people remain supported and engaged **Other changes** • The Group values the benefits that diversity of thinking brings to the organisation. In the year the Group has actively promoted diversity initiatives across its global operations and will continue to ensure that society is fairly represented within our business
Financial management Effective financial management is a foundation of our success. Failure to ensure effective financial control and stewardship could result in a failure to manage costs, and customer default **Risk profile**	**COVID-19 related changes** • The impacts of COVID-19 have increased the risk of customer default with many businesses suffering significant short-term reductions in income and cash flow with further future impacts possible • The need to raise public finances following the cost of the COVID-19 pandemic may increase the likelihood of changes in tax legislation, and/or an increased propensity for regulators to investigate large corporates in the hope of achieving additional tax revenues and fines. These challenges may result from differences of opinion or changes in regulator interpretation of tax legislation in place with which the Group considers itself to be compliant

Used to denote where COVID-19 has an increased impact, and also where a mitigation has been implemented specifically due to COVID-19.

IMPACT	MITIGATION	OPPORTUNITY
• The Group fails to achieve operational or strategic objectives as a result of a misalignment of skills and capabilities • Organisational culture and mindset fail to facilitate the requirements of a business operating in new and fast changing categories • Failure to ensure safe working practices, appropriate environment and culture, and the required personal support to ensure the safety and wellbeing of our people and others working with the Group • Loss of life, or serious injury/illness to employee or other individual working with/for IMB • Financial penalty, censure, or prosecution for breach of regulations • Interruption of Group operations (notably manufacturing) resulting from significant incident or failure to comply with regulations	• COVID-19 related safety measures, including employees working from home, social distancing in Group locations, provision of quality PPE protection, employee testing, safe employee transportation, and welfare support measures have been put in place • Capability requirements and gaps identified, with actions taken both locally and at Group level to address short and medium-term requirements • Tailored recruitment approach and remuneration for specific capability requirements to align with external market have proven successful • Cultural change continues to be addressed within Group change programmes to create a fit for the future environment • Changes in structural reporting have brought our people agenda, employee welfare, health and safety, and communications together, facilitating effective cultural change • Health and safety policies, procedures, training, and monitoring in place • Employee wellbeing support in place across the business	• In many of our locations the Group has been recognised as an employer demonstrating the prioritisation of employee welfare in the current pandemic, creating a work environment which is often safer than the relative controls in place outside of our premises • Increased attractiveness of Imperial as an employer of choice for both current and potential employees through promotion of diverse culture, personal development, and wellbeing initiatives • Achievement of Group strategy, and development of multi-category business enhanced by attraction and retention of requisite capabilities and mindset • Continued promotion of our safety culture facilitates the associated benefits of reduced lost working time, and operational effectiveness • Supports attractiveness of Imperial as an employer of choice for both current and potential employees through promotion of a safe and enabling work environment and the provision of wellbeing initiatives
• Incorrect, inaccurate, or misleading financial or management reporting results in poor decision making and/or inability to achieve financial targets • Inability to meet or manage external expectations impacts investor confidence and share price • Write-off of customer debt results in material loss • Lack of appropriate expertise impacts ability to manage financial risks • Management decision process impacted by inaccuracies or misinterpretation of available data • Failure to comply with tax regulations, could result in investigations and the enforcement of financial or regulatory censure. Additionally, reputational damage could occur as a result of investigations, regardless of outcome, impacting the Group's relationship with external stakeholders • Publicity relating to tax investigations could increase the likelihood of further regulators commencing their own investigations further increasing the potential costs of defending accusations	• The Group has a structured financial forecasting and reporting process • Financial reporting extensively reviewed and differences explained • Expenditure managed by delegated authorities, and systemised investment application process • Approval of credit limits by Group Finance and monthly reporting of outstanding balances (further measures implemented from start of pandemic) • Staff aware of Group policy and standards in relation to inside information and public disclosure • Group tax policies, processes and standards include delegated authorities and matters to be reported to the Group. This best assures standards across the Group and ensures the appropriate involvement of Group or external experts in local matters when required	• Effective financial management enables the Group to deliver on cost management, ensure the most effective use of working capital in its allocation of investments, and provide strong oversight to ensure commercial decisions result in the realisation of strong cash flow. • In line with the Board's risk appetite our intention is to ensure compliance with tax legislation. The implementation of effective and appropriate tax controls facilitates the benefits we achieve from being an ethical business

PRINCIPAL RISK	CHANGE IN YEAR
Market execution Continued successful operational execution within our markets is the key driver of business performance. Failure to manage market risks impacts achievement of Group strategy **Risk profile** →	**COVID-19 related changes** • Geo-political impacts have been identified during the pandemic. The ability for rational engagement with regulators, both local and national, and the speed of regulatory change is varied across the Group's diverse commercial footprint • The increase in consumer price consciousness during the period has highlighted the value of effective brand management in market. The strength and relevance of our brands is important for retaining existing consumers and attracting new consumers **Other changes** • Should the UK government fail to avoid a no-deal Brexit, the resultant implementation of WTO tariffs has potential impacts on our local operations These impacts would crystallise in the coming year • The activation of NGP products in market, and the related management focus to achieve targets aligned to external expectations, has reduced in the year with the rebalancing of NGP ambition, enabling greater focus on the core tobacco category • The implementation of EU track and trace requirements within markets has added additional complexity and critical dependencies in both internal and external processes and relationship
Innovation Innovation and product development ensure that our portfolio of products continues to be attractive to consumers. Failure to develop products aligned to consumer preferences will result in lower volumes and market share **Risk profile** ↓	**COVID-19 related changes** • In seeking value from their consumption, price conscious customers will increasingly trial alternative nicotine products. The emergence of vape, heated tobacco, and oral nicotine in market offers the Group longer-term opportunities in these categories **Other changes** • The rebalancing of focus between the Group's product categories in line with the current NGP ambition has reduced the short-term pace of product innovation and reduced the profile of related risks • Innovation of NGP products has continued with developments in our oral and heated tobacco categories. Structural changes in our innovation hub have been successfully managed

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IMPACT	MITIGATION	OPPORTUNITY
• Failure to comply with EUTPD requirements or related system failure could result in an inability to supply European markets • The failure of the UK government to negotiate a Brexit deal will result in the adoption of WTO tariffs impacting costs despite robust mitigation plans • Failure to maintain or grow brand equity could result in reduced attractiveness to consumers and related reduction in sales • Geo-political risks exist across the Group's diverse footprint. These include political impacts, civil unrest, climate risks, and in the case of the US market the risk that political change increases the pace of regulatory change. These risks can impact ability to supply and execute as planned in markets with the pandemic notably highlighting the impacts local regulators can have on continuity of operations	• Track and trace project team expertise, along with specialist IT resources have been made available to ensure that early implementation issues are resolved in a timely manner • Management strategy in place to manage short-term Brexit transition risks with ongoing strategic review and local oversight of Group level impacts • Brand strength is continually monitored, with expert teams in place to develop and drive brand proposition and initiatives • Local management continually monitor geo-political risk with support from specialist Group functions such as our Security team. The potential impacts arising from these risks have mitigation plans in place, and lessons learned during the recent pandemic have been implemented	• The continuation of our successful market execution strategy is critical to the success of the business. Ensuring brand activation at a local level and satisfying customer needs facilitates the continuation of customer loyalty and the potential for growth in our brands, customer base, and sales volumes • Our agility enables our markets to proactively identify and react to changes in market dynamics, resolve issues encountered, and ensure the right product portfolio is available for adult smokers
• If the Group's product portfolio fails to meet consumer preferences, then reduced demand could result in lower sales volumes and reduced brand equity • Failure to act upon consumer insights prevents opportunities from being seized and impacts growth • Failure to identify IP constraints in the innovation of new products could impact development/or launch limiting the ability to respond to competitor offerings • Potential cost savings arising from innovations may not be realised as planned where product developments are delayed or not completed • Significant costs can be incurred in the product development process. Failure to realise the benefit of innovation or development, or to obtain revenue streams from IP, could impact Group profits and incur opportunity costs where alternative investments are impacted by capital allocation decisions	• Innovation processes are designed to develop consumer products based upon robust analysis and testing • Specialist in-house innovation function with expertise in product development – notably NGP • Alignment of Group Science and Innovation processes • IP risks are managed by subject matter experts within the Group, ensuring protection of our own innovations and best enabling the development process • The rebalancing of short-term innovation goals in line with the Group's current NGP ambition reduces the risks associated with new product development	• The development of innovative products that meet and drive consumer demands throughout their evolving journey • Speed and quality of innovation enables the drumbeat of consumer activations that ensure both brand relevance and continued brand loyalty

PRINCIPAL RISK	CHANGE IN YEAR
Financial and other reporting The Group's ability to provide accurate, balanced, and timely reporting, in line with regulatory requirements, increases investor and wider stakeholder confidence in the integrity of the Group and its internal control frameworks **Risk profile**	**COVID-19 related changes** • In line with other organisations the Group has completed reporting periods with our people working from their home environment. Systems, processes, capabilities, and personal effort, along with positive action taken from learnings, have ensured that reporting requirements continue to be delivered
Capital allocation Failure to maintain strong cash flow and liquidity positions could reduce the Group's ability to deliver shareholder returns, invest behind the business, or to repay debt **Risk profile**	**COVID-19 related changes** • In common with other organisations the Group is subject to increasing analysis of its continued viability in more uncertain times. The Group continues to manage its working capital and liquidity in an effective and proactive manner **Changes in year** • Successful fund-raising initiatives were completed ahead of COVID-19, improving the Group's long-term liquidity at a reduced average cost of financing • The potential impacts of Brexit have been assessed and mitigating actions implemented

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IMPACT	MITIGATION	OPPORTUNITY
• Error or omission in externally reported information, including financial and non-financial reporting, impacts investor and wider market confidence • Errors in consolidation process results in escalation of issues raised by external audit and possible qualification of financial accounts • Failure to comply with reporting requirements (notably external financial reporting requirements including UK Companies Act, UKLA, IFRS) results in penalty, regulatory censure, and reputational damage • Financial accounts impacted by lack of understanding of the statutory reporting impact of business transactions • Failure to accurately record and report foreign exchange rate fluctuations impacts profit • Failure to identify and account for taxation liabilities or incorrect reporting (direct or indirect tax) results in investigation	• Standard instructions, guidelines and timetables are communicated • Procedures in place for key activities including reconciliation and review by subject matter experts across the business (financial and non-financial information) • Group has implemented specific structured processes and controls for financial reporting • The impact of new reporting requirements and impact upon the Group's results is proactively managed • Regular updates and review of financial information discussed between Group Tax, Treasury, and Group Reporting to ensure appropriate and effective treatment of transactions, including derivatives	• Investor confidence in the Group's ability to deliver its strategy is in part influenced by the confidence they have in the integrity and transparency of financial reporting and related communications
• Failure to maintain cash flows could impact the Group's ability to pay down debt, impacting covenants, credit ratings, bank bond, and investor confidence • Reduced ability to invest in initiatives • A fall in certain of our credit ratings would raise the cost of our existing committed funding and is likely to raise the cost of future funding and affect our ability to raise debt • Adverse movements in interest rates could result in higher funding costs and cash outflows • Failure of a financial counterparty (e.g. when holding cash deposits and/or derivatives) is likely to result in a financial and cash impact	• We have a strong focus on cash generation supported by Group guidance and governance processes • Appropriate authority and accountability in place for investments and capital expenditure, including achievement of required return criteria • Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with performance and expectations to manage future financing needs and optimise cost and availability • The Treasury function operates in accordance with the terms of reference and delegated authorities set out by the Board, with independent oversight from the Treasury Committee • The Group has investment grade credit ratings from the main credit rating agencies, which supports it to access financing in the global debt capital markets	• Maintaining an efficient capital structure allows the Group to maintain an effective cost of capital to support and generate additional returns on investments and capital outlays/expenditure • The Group separates its financing decisions from its interest rate risk management decisions and therefore has flexibility to take advantage of advantageous interest rate movements should it wish to do so • Given the high cash conversion that the Group has delivered/delivers, this provides the Board/management with cash flexibility and optionality

PRINCIPAL RISK	CHANGE IN YEAR
Delivery of transformation projects The ability to deliver organisational change can create significant commercial advantage. Failure to deliver the required change initiatives could result in lost competitive advantage and future inability to meet legal and regulatory requirements **Risk profile** →	**COVID-19 related changes** • During the pandemic the Group's need to be agile and adapt to the changing environment, both internal and external, resulted in controlled short-term process changes notably production planning. The lessons learned and the positive impacts of these changes are being evaluated as part of wider process design initiatives **Changes in year** • The delivery of change projects continued during the pandemic to deliver both legal and regulatory requirements, and increased operational effectiveness. Changes in operating model design complemented and facilitated the increased agility required to respond to changing commercial pressures
Litigation Similar to other corporates litigation and other claims are pending against the Group. The interpretation of law (including taxation) and the related judgements taken in relation to these laws can lead to dispute or investigation **Risk profile** ↑	**COVID-19 related changes** • The risk of regulatory disruption increases in periods of recession or deficit of public funds. The Group has taken steps to improve and assure the ongoing design of its control frameworks to maintain its compliance with legal and regulatory requirements **Changes in year** • The risk of litigation in relation to vaping products in the US continues to increase. Significant actions are being taken against competitors which could set precedents that could impact the Group

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IMPACT	MITIGATION	OPPORTUNITY
• Failure to meet project timelines or key milestones results in reputational damage and/or increased implementation cost and potential penalties • Budgeted savings/returns not achieved in key strategic projects • Non-achievement of strategic objectives, resulting in loss of investor and market confidence • Reporting of incorrect or unsubstantiated benefits realisation • Cost cutting results in inefficiencies (short/medium term) and unintended increasing costs within the business	• Robust business case approval process in place with wide stakeholder input • Appropriate steering committee structure, project reporting, and ExCom reporting in place, with cross-functional involvement • Project benefits realisation verified at key project milestones • Resource requirements constantly reviewed, with specialist project management resource employed on key strategic projects	• Successful delivery of key organisational change projects improves the efficiency and effectiveness of the Group to achieve its strategic goals, and ensures the continued allocation of working capital to value adding initiatives • COVID-19 learnings offer the opportunity to better understand where short-term process changes and rationalisations can be adopted to improve the long-term efficiency of the operating model
• If any claim against the Group was to be successful, it might result in a significant liability for damages and might lead to further claims against us • ESG related risks exist within the Group's supply chain, notably the risks associated with potential human rights abuses within the supply chain (e.g. leaf farming in developing countries). Failure to manage these risks could result in legal proceedings, criminal investigation, financial loss, and significant reputational damage • Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable • A successful claim against a competitor could result in an increased likelihood of similar claims against the Group • The reputational damage arising from investigations or allegations of non-compliance could be of greater impact than the penalties or actions related to the matter itself	• We employ internal and external lawyers specialising in the defence of product liability and other litigation. To date, no tobacco litigation claim brought against the Group has been successful and/or resulted in the recovery of damages • Advice is provided to prevent causes of litigation, along with guidance on defence strategies to direct and manage litigation risk and monitor potential claims around the Group • Risk assessments are completed and risk management frameworks implemented across the business to facilitate legal and regulatory compliance and reduce the risk of related litigation	• N/A

LIQUIDITY AND GOING CONCERN

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 per cent and 30 per cent 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 per cent 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 cash flows 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.

VIABILITY STATEMENT

The Board has reviewed the long-term prospects of the Group in order to assess its viability. This review, which is based on the business plan which was completed in October 2020, incorporated the activities and key risks of the Group together with the factors likely to affect the Group's future development, performance, financial position, cash flows, liquidity position and borrowing facilities as described in the 'Managing risk' section of this Report on pages 42 to 59.

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

Assessment

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

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

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

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

This year the risk scenarios included an assessment of the possible longer-term impact of COVID-19 on the size and shape of the tobacco market. This included assessing the impact on the Global Duty Free and Travel Retail arms of the business and modelling the ability of the organisation to trade through a significant economic downturn materially impacting the level of sales. These incremental COVID-19 risk scenarios can be found in the preceding statement on going concern.

Findings

Viability review period

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to September 2023. This reflects the period used for the Group's business plans and has been selected because, together with the planning process set out below, it gives management and the Board sufficient, realistic visibility on the future in the context of the industry environment. The Board has considered whether it is aware of any specific relevant factors beyond the three-year horizon and confirmed that there are none.

The Group's annual corporate planning processes include completion of a strategic review, preparation of a three-year business plan and a rolling re-forecast of current year business performance and prospects.

The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding, forecast future funding requirements, banking covenants, and other key financial ratios, including those relevant to maintaining our investment grade ratings. These projections represent the Directors' best estimate of the expected future financial prospects of the business, based on all currently available information.

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

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

Risk impact review

For each of our 12 principal risks, plausible risk impact scenarios have been assessed together with a multiple risk scenario. The following table summarises the key scenarios that were considered, both individually and in aggregate:

Risk scenarios modelled	Level of severity reviewed	Principal risk in which underlying impacts assessed
The consequences of adverse commercial pressures, involving volume reduction and/or falls in margin, driven by unforeseen reductions in the size of the legitimate tobacco market or other changes in the level of consumer demand for our products.	The maximum quantifiable impact of all envisaged business risks, including the impact of a loss of market size and share. The value of these combined risks total £160 million per year or £480 million in total over the three-year period under review.	• Market environment • Consumer focus • Market execution • Financial management • Product supply • Innovation
The possible costs associated with legal and other regulatory challenges, including competition enquiries and tax audits.	Failure to successfully defend all existing and reasonably foreseeable future legal and regulatory challenges. The value of these combined risks is c.£420 million.	• Legal and regulatory • Litigation • Market environment • People and organisation
Failure to deliver on key strategic initiatives, including growth within our NGP business.	Significant competition, technological or regulatory challenge resulting in no future growth in the NGP business. The value of these risks is c.£50 million per year.	• Delivery of transformation projects • Product supply • People and organisation • Market environment • Market execution

None of the scenarios reviewed, either individually or in aggregate, would cause Imperial Brands to cease to be viable with the lowest level of headroom available over the three-year period under review, in the case that all risks materialise at the same time and at their highest assessed levels and with all possible mitigating actions taken, being £1.2 billion

CONCLUSION

On the basis of this robust assessment of the principal risks facing the Group, and on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2023.