

19 MAY 2020

FOCUSED ON STRENGTHENING PERFORMANCE

Financial Overview

Overview – Adjusted Basis	Half Year Result		Change		
		2020	2019	Actual	Constant Currency ¹
Total tobacco volume	bn SE	114.6	115.2	-0.5%	-0.5%
Tobacco net revenue	£m	3,509	3,508	0.0%	+0.9%
NGP net revenue	£m	83	148	-43.9%	-43.2%
Tobacco & NGP net revenue	£m	3,592	3,656	-1.7%	-0.9%
Asset Brand net revenue	£m	2,290	2,355	-2.8%	-1.7%
Tobacco & NGP adjusted operating profit	£m	1,383	1,538	-10.1%	-8.5%
Distribution adjusted operating profit	£m	95	102	-6.9%	-4.9%
Total adjusted operating profit	£m	1,469	1,620	-9.3%	-7.7%
Adjusted earnings per share	pence	103.0	115.6	-10.9%	-9.2%
Adjusted net debt	£m	(13,476)	(12,958)		

Overview – Reported Basis	Half Year Result		Change		
		2020	2019	Actual	
Revenue	£m	14,672	14,390	2.0%	
Operating profit	£m	925	1,150	-19.6%	
Basic earnings per share	pence	55.6	71.2	-21.9%	
Dividend per share	pence	41.70	62.56	-33.3%	
Reported net debt	£m	(14,144)	(13,381)		

See page 3 for basis of preparation and page 13 for the reconciliation between reported and adjusted measures.

¹ Constant currency removes effect of exchange rate movements on the translation of the results of our overseas operations.

² 2019 Asset Brand net revenue restated for reclassification of brands. See Basis of Presentation on page 3.

“While we delivered against our revised expectations, we are disappointed with these results, and we remain fully focused on all opportunities to strengthen performance.

“We would like to thank our employees for their hard work and commitment in these challenging times. Their support has been outstanding and we continue to prioritise their health, safety and well-being.

“Our enhanced focus on tobacco has driven stronger in-market execution and an improved share performance, with gains in most of our priority markets. We have reduced our NGP spend following the poor returns on investment last year and this, together with recent weaknesses in the vapour category, has resulted in lower NGP revenue.

“Overall, COVID-19 has so far had only a small impact on trading but we expect this to be more pronounced in the second half due to continued pressures on our duty free and travel retail business, changes in consumption patterns including downtrading and a reversal of some first half inventory build.

“Agreeing the sale of our premium cigar business for €1.2 billion in the current climate was a major achievement and will further simplify the business and reduce debt. Deleveraging remains a key priority, such that the Board has decided to rebase the dividend by one-third to accelerate debt repayment, while retaining a progressive dividend policy, growing annually from the rebased level. This will strengthen the balance sheet and support a more flexible approach to capital allocation in the future.”

Dominic Brisby and Joerg Biebernick
 Joint Interim Chief Executives

Highlights

- **Protecting our people in uncertain times:** we have taken all necessary steps to ensure our hard-working employees remain safe and well
- **Delivered share growth in tobacco:** market share gains for the overall Group and in 7/10 priority markets
- **Right-sized our NGP investment:** disciplined approach to improve returns and build sustainability
- **Submitted PMTAs to FDA for *myblu* products:** *myblu* plays an important role in our NGP portfolio and we look forward to working with the FDA to help develop an evidence-based regulatory policy
- **Challenged the cost base and strengthened the balance sheet:** drove a further cost saving initiative and secured additional credit facilities
- **Agreed sale of Premium Cigars for €1.2 billion:** reinforces our focus on simplifying the business and realising value for shareholders, with proceeds to be used to reduce debt

Results Overview

- Results in line with revised expectations in AGM update
- Overall results affected by lower NGP sales, write-downs and impairments totalling £95m
- A temporary COVID-19-related trade inventory build caused c. 1% net increase to net revenue and profit

Volume and net revenue

- Tobacco market share up 40 basis points to 13.6% on YTD basis; share gains in 7/10 priority markets
- Net revenue down -0.9% driven by declines in NGP offset by tobacco net revenue growth of 0.9%
- Tobacco price mix +1.4% reflects pricing of 6.7% offset by adverse market mix of 2.6% (e.g. Middle East, Australia) and adverse product mix of 2.7% (e.g. Backwoods USA and downtrading in UK, Germany, Australia)
- NGP investment has been reduced to improve returns
- Asset Brand net revenue declined 1.7% reflecting lower sales of blu and Backwoods

Profit

- Adjusted operating profit down -7.7% reflecting US NGP flavour write-down (£48m); increased provisions for slow-moving inventory (£28m), an additional impairment to NGP intellectual property assets (£19m) and lower NGP sales partially offset by cost savings; excluding the £95m of write-downs adjusted operating profit fell 1.8%
- Tobacco adjusted operating profit down -0.7% reflecting an increase in A&P in Europe driven by the timing of promotional activities and the phasing of overheads; tobacco gross profit up 1.3%
- Reported operating profit down -19.6% reflecting lower adjusted operating profit and a goodwill impairment and associated disposal costs of the Premium Cigar Division (£147m) and higher restructuring costs (£40m), more than offsetting the prior year increase in contingent consideration for Von Erl (2019: £119m) not repeated this year
- Adjusted EPS down -9.2% principally due to the phasing of the NGP write-downs and an increased tax rate, partially offset by lower interest costs and share buyback benefit

Cash and debt

- Cash conversion of 103% (12-month basis) driven by the £445m working capital inflow in the period
- Adjusted net debt increased £518m (12-month basis) due to adverse FX, payments for share buybacks, the Von Erl acquisition, a Russian excise settlement, and lower profit partly offset by lower working capital
- Reported net debt up £763m (12-month) driven additionally by inclusion of lease liabilities of £302m for the first time under IFRS 16

Capital allocation and dividend

- Modified our capital allocation policy to accelerate debt reduction
- Dividend to be rebased by one third; implying an annual dividend for 2020 of 137.7 pence per share
- Progressive dividend policy growing annually from the revised level thereafter, taking into account underlying business performance consistent with the policy outlined in July 2019
- All dividend savings will be used to reduce gearing to the lower end of our 2-2.5x target range by the end of 2022
- The policy recognises the Group's continued strong cash generation and the importance of growing dividends for shareholders, while strengthening the business for the future

Basis of Presentation

- To aid understanding of our results, we use 'adjusted' (non-GAAP) measures as we believe they provide a better comparison of performance from one period to the next. Reconciliations between adjusted and reported (GAAP) measures are also included in the relevant notes. Further definitions of adjusted measures are provided in Note 1 of these accounts. Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations. References in this document to percentage growth and increases or decreases in our adjusted results are on a constant currency basis unless stated otherwise. These are calculated by translating current year results at prior year exchange rates.
- Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.
- Market share is presented as a 12-month average (MAT), unless otherwise stated. Aggregate market share is a weighted average across markets within our footprint.
- Asset Brand volumes and net revenue for 2019 have been restated to reflect the inclusion of fine cut tobacco brand, Riverstone, and NGP brands, Pulze, iD and Zone X and the reclassification of our premium cigar brands, Cohiba, Montecristo and Romeo y Julietta and our cigarette brands, Bastos and Style as Portfolio Brands.

Outlook

We have responded rapidly to an evolving situation and are taking every necessary action to protect the interests of all our stakeholders. The impact of COVID-19 on the Group was relatively small in the first half with widespread lockdowns in our footprint only being enforced during March. We have assumed the first half inventory build by customers will fully unwind in the second half.

The business is well-placed to navigate the challenges arising from COVID-19, which is reinforced by the defensive qualities of tobacco and our financial stability. However, we also recognise no company is immune and there are external factors outside our control at this time, such as the severity and duration of the pandemic and how lockdown measures might affect our supply chain, retail channels and consumer behaviour. These are expected to have a more significant impact on our second half, although at this early stage it is difficult to assess their extent.

We currently estimate COVID-19 related factors will have a low single digit impact on earnings per share, in addition to current market expectations (constant currency EPS down 2%), which reflect the full year guidance given in our February AGM update.

Although there are different trends across different markets, we see three main drivers of the COVID impact that will influence the outcome:

- Market size declines have deteriorated due to significant restrictions on certain sales channels. This principally relates to a material decline in demand in our global duty free/travel retail operations with the cessation of international and cross border travel. Given the outlook for international travel, we are currently assuming no recovery in this business during the second half. The Horeca channel has also experienced declines in demand.
- There is evidence of changes to consumption and buying patterns, including increased downtrading across certain markets. We expect these trends will continue and potentially deteriorate further with recessionary pressures. However, we believe we are relatively well placed with a lower exposure to premium products within our portfolio.
- The current COVID-related restrictions on some of our manufacturing facilities have reduced their production capacity and affected their operating efficiencies. We have assumed these will be back to full capacity by the end of June. We have also assumed there is no second spike that will further disrupt other areas of our manufacturing and supply chain.

In addition, our full year results will now also reflect the impact of the intellectual property asset impairment of £19 million (c. 0.6% impact to EPS), which has been recognised in the first half but was not included in our previous guidance in February. We now also expect the Premium Cigar disposal will complete in July resulting in earnings dilution of c. 0.3% in the current year.

We expect the impact of translation foreign exchange to be neutral on full year earnings per share based on latest exchange rates.

OTHER INFORMATION

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Analyst Presentation Webcast

Imperial Brands PLC will be hosting a live webcast for investors and investment analysts with senior management following the publication of our Interim Results on 19 May 2020. The webcast will be hosted by Joerg Biebernick and Dominic Brisby, Joint Interim Chief Executives and Oliver Tant, Chief Financial Officer, and be available on www.imperialbrandsplc.com from 9.00am (GMT). It will be followed by a live question and answer session. An archive of the webcast and the presentation script and slides will also be available.

You can join the webcast via: <https://edge.media-server.com/mmc/p/eg3y55i9>

Please copy and paste the link into your browser.

If you also want to be able to ask questions in the Q&A session, please dial-in using the numbers below at least 10 minutes prior to the start time to provide sufficient time to access the event. You will be asked to provide the conference ID number below.

Conference ID No: 2866396

United Kingdom: 44 (0) 20 7192 8000 or 0800 376 7922

USA: +1 631 510 7495 or +1 866 966 1396

Cautionary Statement

Certain statements in this announcement constitute or may constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is or may be a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected or implied in any forward-looking statement. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement. As a result, you are cautioned not to place any reliance on such forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of this announcement and the Company undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be construed as a profit forecast or profit estimate and no statement in this announcement should be interpreted to mean that the future earnings per share of the Company for current or future financial years will necessarily match or exceed the historical or published earnings per share of the Company. This announcement has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this announcement is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

CHIEF EXECUTIVES' STATEMENT

COVID-19 has had a profound impact on all our lives and sadly with tragic consequences for too many families. The implications of the necessary restrictions imposed by governments and public health authorities continue to affect the daily movements of millions of people and the trading activities of all businesses. As a large multi-national organisation, we are very much aware of our responsibilities to a wide range of stakeholders and we are committed to meeting those responsibilities as fully as we can.

We estimate our first half net revenue and adjusted operating profit both increased by about 1% from the net effect of increased buying by retailers and wholesalers in March and the declines in duty free and travel retail.

In navigating the business through the significant uncertainties created by the coronavirus, we have focused on five key areas:

- Protecting the health, safety and well-being of our people
- Maintaining supply to customers
- Enhancing our focus on tobacco performance
- Right sizing investment behind our Next Generation Products
- Strengthening the balance sheet

Protecting the health, safety and well-being of our people

Our first priority is the health, safety and well-being of our 32,000 people around the world. They are doing a tremendous job in dealing with the challenges posed by COVID-19 and we would like to thank them all for their exceptional efforts. We have strengthened our IT infrastructure and accelerated the roll-out of software to facilitate team-working to support employees working from home. Our sales teams have done an outstanding job in maintaining relationships with retailers and in some markets, employees have started to slowly, and safely, return to the field. We advocate flexible working and have encouraged our people to find a routine that works best for them and their families. We communicate regularly with employees and have initiated a number of surveys to check-in on their well-being. Feedback tells us that overall, employees continue to feel positive despite the challenging circumstances. We also recognise the impact COVID-19 is having on the wider communities in which we operate and we have stepped up our support through a number of local initiatives.

Maintaining supply to customers

We are grateful for the hard work of our manufacturing and supply chain colleagues, which has helped to keep the majority of our operations running during this period. Our operations benefit from a diversified supply chain and factory footprint, which has had to respond to rapid changes in demand and operating conditions. We have 38 factories and it is a credit to our manufacturing teams that they have kept the vast majority operating throughout the crisis. This has been achieved with reconfigured factory layouts and changing shift patterns to ensure infection controls and social distancing measures are in place to protect the safety of our people. We have experienced some temporary government-enforced closures of certain smaller facilities and, although these have now reopened, it is with reduced capacity. We have prioritised the manufacture of major product lines to build contingency stocks with our finished goods inventories averaging around 8-10 weeks.

Enhancing our focus on tobacco performance

Our tobacco business delivered a strong volume performance, driven by 40 basis points of share gains across the Group in the year to date and with the benefit of improved volumes in Africa, Asia and Australasia (AAA), following a weak performance in the comparator period.

We achieved share growth in seven of our 10 priority markets, reflecting stronger in-market execution and a greater focus on our tobacco range from our sales teams, following the reduction in NGP investment.

Despite the challenges of COVID-19 across our markets, tobacco products have largely been available through our usual retailer network, although there have been some store closures in Europe. We also experienced an increase in demand for tobacco products during March as many governments stepped up restrictions. Retailers and wholesalers increased orders to meet consumer demand and avoid out of stocks in the event of potential supply disruptions. The travel restrictions put immediate pressure on our duty free and travel retail operations and their customers. The duty free channel accounted for around 2% of Group net revenue in 2019.

Right sizing investment behind our Next Generation Products

Following last year's disappointing performance, we have taken action to improve returns and improve the sustainability of our NGP business, while maintaining a range of options for future growth. Investment in vapour has been significantly scaled back and we have increased our provisions for slow-moving blu inventory and destocked trade inventories against a backdrop of a weakening vapour category. Despite the reduced investment, our blu market shares have held up well in several markets. However, overall net revenue of our NGP business fell by 43 per cent reflecting destocking of the supply chain. Elsewhere, we continue to test pilot the opportunities for heated tobacco in Japan and have achieved good growth with our oral nicotine products in several European markets including Germany, Austria, Norway and Sweden.

Strengthening the balance sheet

In addition to reducing NGP investment, we have initiated an even greater attention to cost reduction initiatives as well as delivering improved cash conversion of 103%, on a 12-month basis.

Although we expect the impact on the business from COVID-19 to be relatively limited, we have stress tested our liquidity needs and financial resources against a range of different scenarios.

We have improved liquidity through the agreed sale of our Premium Cigar business to realise proceeds of c. £960 million in the second half for deleverage, the signing of €1.1 billion committed 18-month bank facilities, and our participation in the Bank of England's Covid Corporate Financing Facility. The actions have strengthened the resilience of the Group to deal with the likely challenges in the months ahead. Further details are provided in the Finance Review.

Capital allocation and dividend policy

The Board has also revisited the Group's capital allocation policy with a view to de-risking the business and further strengthening the balance sheet. While our combustibles business model remains strongly cash generative, the pace of debt reduction has not been as fast as we would have liked in recent years. The Board believes a stronger balance sheet will provide the business with greater flexibility for the future. This has not been driven by COVID-19, although, the current uncertainties caused by COVID-19, as well as the ongoing regulatory focus on tobacco, further reinforces the importance of a strong balance sheet to underscore the defensive characteristics of our business.

Accordingly we have decided to rebase the dividend by a third to provide increased financial flexibility, with the priority of accelerating debt reduction to the lower end of our existing 2-2.5 times target range, which we expect to achieve by the end of 2022.

The Board recognises the importance of the dividend to shareholders and considers that the rebase provides an appropriate balance between debt reduction and retaining a progressive dividend, which will grow annually from the rebased level, taking into account underlying business performance.

Once our target leverage has been achieved, the revised policy will support a more flexible approach to capital allocation, enabling the business to consider additional shareholder returns from surplus capital alongside investing to strengthen the business.

Our sustainability agenda

Our sustainability strategy is integral to the long-term growth of the business and frames the way we manage our environmental, social and governance (ESG) responsibilities.

COVID-19 has so far had no impact on the delivery of our non-financial KPIs, although some ESG initiatives planned for this financial year have been affected. We are keen to improve transparency around our ESG performance and are currently in the process of developing additional KPIs for our priority issues.

OPERATING REVIEW

Europe

		Half Year Result		Change	
		2020	2019	Actual	Constant Currency
Tobacco volume	bn SE	62.7	64.6	-3.0%	
Total net revenue	£m	1,618	1,680	-3.7%	-2.0%
Tobacco net revenue	£m	1,588	1,607	-1.2%	+0.5%
NGP net revenue	£m	30	73	-58.9%	-56.2%
Adjusted operating profit	£m	706	771	-8.4%	-6.7%
Asset Brand % of net revenue	%	73.3	74.5	-120 bps	-140 bps

2019 Asset Brand net revenue restated for the reclassification of brands.

Our Europe division results were affected by lower NGP revenues and associated write-downs, more than offsetting the tobacco revenue growth which benefited from continued positive pricing.

We have continued to balance our priority market share positions with optimising financial returns, ensuring that we deliver quality growth in the right markets, with the right brands. We achieved share gains in Spain and Italy and improving sequential share trends in the UK and France driven by our tobacco portfolio work, particularly around brand extensions to meet consumer demand shifts.

Tobacco volumes decreased by 3.0 per cent, reflecting tobacco market trends in Western Europe, and some benefit from a short period of increased demand caused by the COVID-19 related lockdowns and strong private label sales.

Net revenue was down 2.0 per cent driven by a 56 per cent decline in NGP sales to £30 million reflecting destocking of the supply chain and our decision to reduce NGP investment to improve returns against a declining vapour category. This more than offset a 0.5 per cent growth in tobacco net revenue, which benefited from further positive pricing (+3.5 per cent) from several markets including a carry-over of pricing in Germany and UK from last year. Tobacco revenue was also affected by lower global duty free and travel retail sales as a result of virus-related travel restrictions.

However, despite the significantly reduced NGP investment, encouragingly our blu share in several markets such as UK, France and Italy proved to be relatively stable. In NGP we have also continued to extend the distribution of our modern oral nicotine products following initial launches in 2019, with good growth in Germany and Austria.

We remain focused on improving the quality of our revenue, with 73.3 per cent of our revenues coming from Asset Brands. Our Asset Brand net revenue declined, reflecting lower sales of blu and our decision last year in Spain to reverse the migration of Ducados to JPS following consumer feedback.

Adjusted operating profit was down 6.7 per cent at constant currency, driven primarily by the lower NGP sales and an increased provision for slow-moving NGP inventory (£22 million). Tobacco profitability was also slightly lower due to an increase in advertising & promotion and overhead spend reflecting the timing of promotional activities.

Priority Markets Performance

Tobacco Share

UK 40.0% (-160 bps)	Net revenue growth was driven by continued strong pricing. Although tobacco share was down, our sequential share trend is improving, benefiting from larger format value offerings, the launch of L&B branded fine cut and reduced price differentials after a period of price disadvantage last year. Our blu share has remained stable despite lower investment.
Germany 20.8% (-100 bps)	The share performance was disappointing and we have taken further action to reshape our brand portfolio to address the share declines, focusing on the share performance of our core brands West, Gauloises and JPS. Cigarette larger value formats and targeted fine cut activation activities are enabling us to capitalise on increased consumer demand for value offerings.
Spain 28.9% (+10 bps)	We continue to gain tobacco share in both the blonde cigarette market and fine cut, benefiting from last year's successful launch of Horizon and investment behind larger value formats in West, Ducados and Fortuna. These have helped deliver the first overall share gains in Spain for several years.

France 18.0% (-50 bps)	Although our MAT cigarette share is down, the trajectory continues to improve, benefiting from the relative price repositioning of News and Gauloises after recent excise increases. We have focused on improving the sales distribution of our Asset Brands. Our blu market share remains stable following a successful renegotiation of trade terms.
Italy 5.4% (+10 bps)	JPS continues to drive market share growth, with a wide product range meeting different consumer needs in the value segment. Our investment remains focused behind the retailer channel, ensuring on-shelf visibility and retailer advocacy of the brand. Although we have reduced investment in blu, it has remained competitive with stable share.

Americas

		Half Year Result		Change	
		2020	2019	Actual	Constant Currency
Tobacco volume	bn SE	9.8	10.0	-2.5%	
Total net revenue	£m	1,092	1,114	-2.0%	-2.8%
Tobacco net revenue	£m	1,062	1,053	+0.9%	0.0%
NGP net revenue	£m	30	61	-50.8%	-50.8%
Adjusted operating profit	£m	390	439	-11.2%	-11.8%
Asset Brand % of net revenue	%	51.3	54.5	-320 bps	-320 bps

2019 Asset Brand net revenue restated for the reclassification of brands.

Positive progress with our tobacco portfolio was more than offset by a disappointing performance from NGP. In tobacco, we delivered further cigarette market share gains and achieved good pricing improvements across our tobacco portfolio. However, the performance of our NGP portfolio was affected by several different factors: the write-down of flavoured product stocks following the FDA ban; our decision to reduce investment and trade inventories, and an increase in our provision for slow moving inventory against a declining vapour category.

In tobacco, volumes were down 2.5 per cent reflecting lower first quarter volume shipments which were affected by higher wholesaler inventories at the end of last financial year ahead of an anticipated October price increase. This was partially offset by the benefit of a trade promotion as well as a temporary increase in wholesaler inventories to meet accelerated consumer demand in March as lockdown conditions were enforced.

We grew our share of the USA cigarette market by 10 basis points, to 8.8 per cent. This has been achieved through our portfolio strategy with a brand offering in each of the key price points. Winston and Kool's share of their respective premium categories remained stable, as did Maverick's share of the discount segment. Sonoma performed well in meeting growing consumer demand in the rapidly growing deep discount segment.

Our share performance in mass market cigars was stable, as lower sales of Backwoods in the premium natural leaf segment were partly offset by strong growth in the value brand Dutch.

On a constant currency basis, tobacco net revenue was flat, primarily reflecting adverse mix arising from lower sales of higher margin mass market cigar, Backwoods, which was offset by continued strong cigarette price/mix, up 5.3 per cent.

NGP revenues of £30 million were 51 per cent lower than last year at constant currency (2019: £61 million) driven by a destock of trade inventories, and reduced promotional activities in a declining vapour category following US health concerns and adverse news flow. In April, we submitted our Premarket Tobacco Product Application (PMTA) seeking authority to continue the marketing of a range of myblu vapour products with various nicotine strengths and flavours.

Adjusted operating profit was 11.8 per cent lower at constant currency, driven by increased losses in NGP with a £48 million write-down of flavoured inventory following the FDA ban and lower NGP sales, which more than offset investment savings and the increase in tobacco profit.

Africa, Asia and Australasia

		Half Year Result		Change	
		2020	2019	Actual	Constant Currency
Tobacco volume	bn SE	42.2	40.6	+4.0%	
Total net revenue	£m	882	862	+2.3%	+3.8%
Tobacco net revenue	£m	859	848	+1.3%	+2.9%
NGP net revenue	£m	23	14	+64.3%	+57.1%
Adjusted operating profit	£m	287	328	-12.5%	-7.9%
Asset Brand % of net revenue	%	61.6	57.5	+410 bps	+440 bps

2019 Asset Brand net revenue restated for the reclassification of brands.

Tobacco volumes were 4.0 per cent higher, largely reflecting a normalisation of shipment timings in the Middle East, against a weak comparator period where volumes declined 10 per cent due to the impact of excise increases and other regulatory changes. Our volume performance also benefited from share gains across the region, most notably in all our priority markets of Australia, Japan, Russia and Saudi Arabia.

Tobacco net revenue was up 2.9 per cent at constant currency with much of the volume improvement driven by lower margin markets in the Middle East, generating a negative market mix against last year.

The positive performance in Saudi Arabia driven by strong sales of Davidoff and West was partly offset by higher illicit cross border volumes following the introduction of plain packaging. In Russia growth was driven by pricing which offset the impact from lower volumes as a result of market size declines.

Australia's results benefited as expected from the sell-through of duty paid inventory accumulated ahead of the September excise increase although this was partly mitigated by downtrading and the associated adverse mix following the establishment of the 'fifth price tier' last year.

Total net revenue, up 3.8 per cent at constant currency, was also supported by NGP revenue growth in Japan with *myblu* and with our heated tobacco product Pulze. NGP revenues grew 57 per cent, or £9 million, to £23 million.

Our Asset Brands now make up 61.6 per cent of our total net revenue, up 440 bps at constant currency.

Adjusted operating profit declined 7.9 per cent at constant currency reflecting increased investment behind our heated tobacco product offering Pulze in Japan following its pilot launch in May last year, which more than offset tobacco profit growth.

Priority Markets Performance

Tobacco Share

Australia 32.8% (+40 bps)	Industry volumes declined 8.6% with increased illicit trade. Our share gains continue to be driven by Parker & Simpson in the growing economy segment. Revenue and profit benefited from the expected upside from higher first half duty paid inventory and price increases. These benefits more than offset the impact from negative mix as a result of growth in the economy segment.
Japan 1.3% (+20 bps)	Industry cigarette volumes declined 9.2%. West continues to benefit from demand for the value segment, following excise related price increases. In vapour, local flavour launches have increased trialists of <i>myblu</i> with increased activation activities. In heated tobacco, the next phase of the test pilot of Pulze is underway with extended distribution.
Russia 8.0% (+30 bps)	Market share growth benefited from a strong performance of Davidoff and West, driven by supporting key account activity. Financial performance was impacted by a decline in tobacco market size and adverse mix. We have launched new crushball formats for Davidoff Reach and Parker & Simpson. Offtake of <i>myblu</i> continues to grow, supported by trade initiatives.
Saudi Arabia 16.5% (+470 bps)	Share performance benefited from strong in market sales of West and Davidoff Evolve supported by better field coverage. We successfully managed the introduction of plain packaging in November 2019, although the financial performance has been affected by increased cross-border flow.

Distribution

		Half Year Result		Change	
		2020	2019	Actual	Constant Currency
Distribution fees	£m	488	499	-2.2%	-0.2%
Operating profit	£m	95	102	-6.9%	-4.9%
Operating margin	%	19.5	20.4	-90 bps	-90 bps
Eliminations	£m	(9)	(20)	-55.0%	-55.0%
Adjusted op profit contribution	£m	86	82	+4.9%	+7.3%

Although Distribution fee income was broadly flat overall at constant currency, operating profit declined by 4.9 per cent driven by an inability to pass on all tax/excise increases to customers, the impact of COVID-19 and year-on-year movements in inventory revaluation.

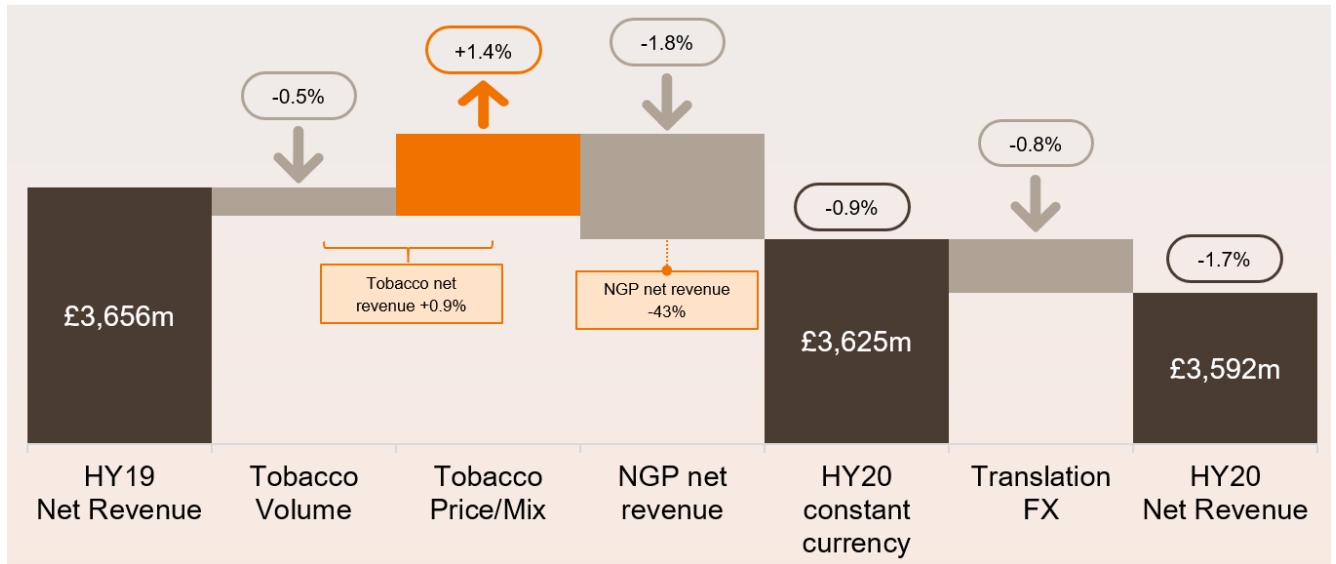
The growth of the Logista operating profit contribution to the Group, up 7.3 per cent at constant currency, reflects the reduction in eliminations as a result of cycling the NGP inventory build in the first half of 2019 in support of market launch activity.

In line with other Imperial owned entities, we continue to benefit from an intercompany cash pooling arrangement with Logista, which further enhances the Group's liquidity.

FINANCE REVIEW

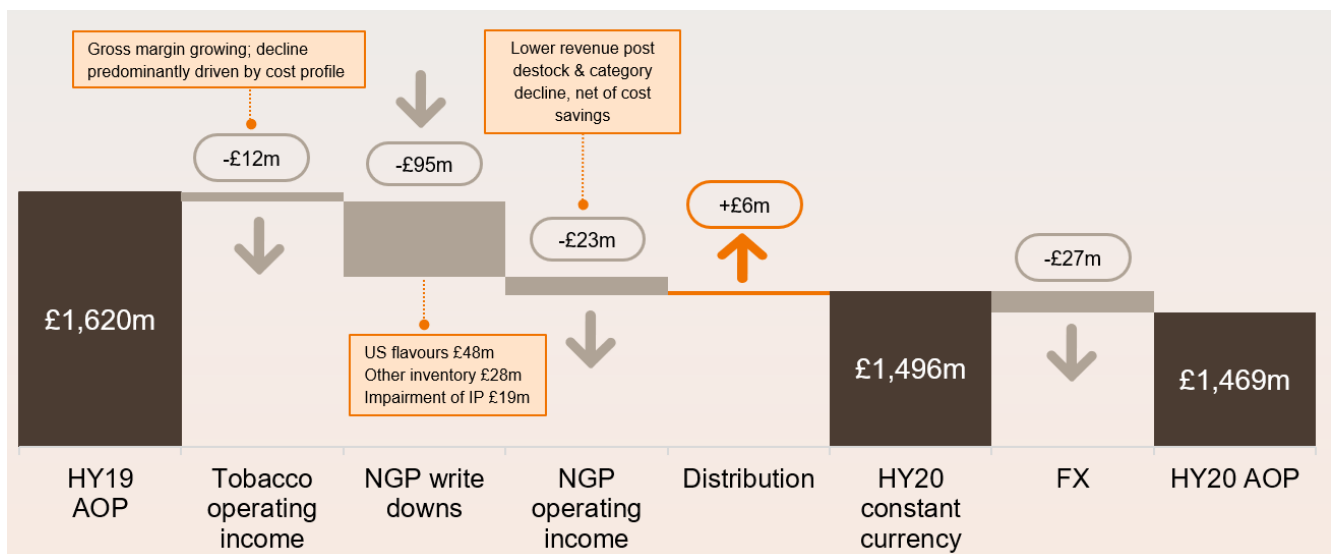
Positive pricing in tobacco offset by lower NGP sales

- Net revenue down 0.9% at constant currency comprising +0.9% from tobacco and -1.8% from NGP
- Strong tobacco volume performance (-0.5%) against an overall market decline of -4.3% driven by share gains, shipment timings in AAA, the benefit of trade promotions and COVID-19 inventory build
- Price mix of 1.4% reflects tobacco pricing of 6.7% offset by adverse market mix (-2.6% mainly shipment timing related in AAA) and product mix (-2.7% largely lower sales of Backwoods and downtrading in Australia & UK)
- NGP revenue declined 43.2% at constant currency reflecting destocking of trade inventories as we right-sized our investment to improve returns as well as category declines



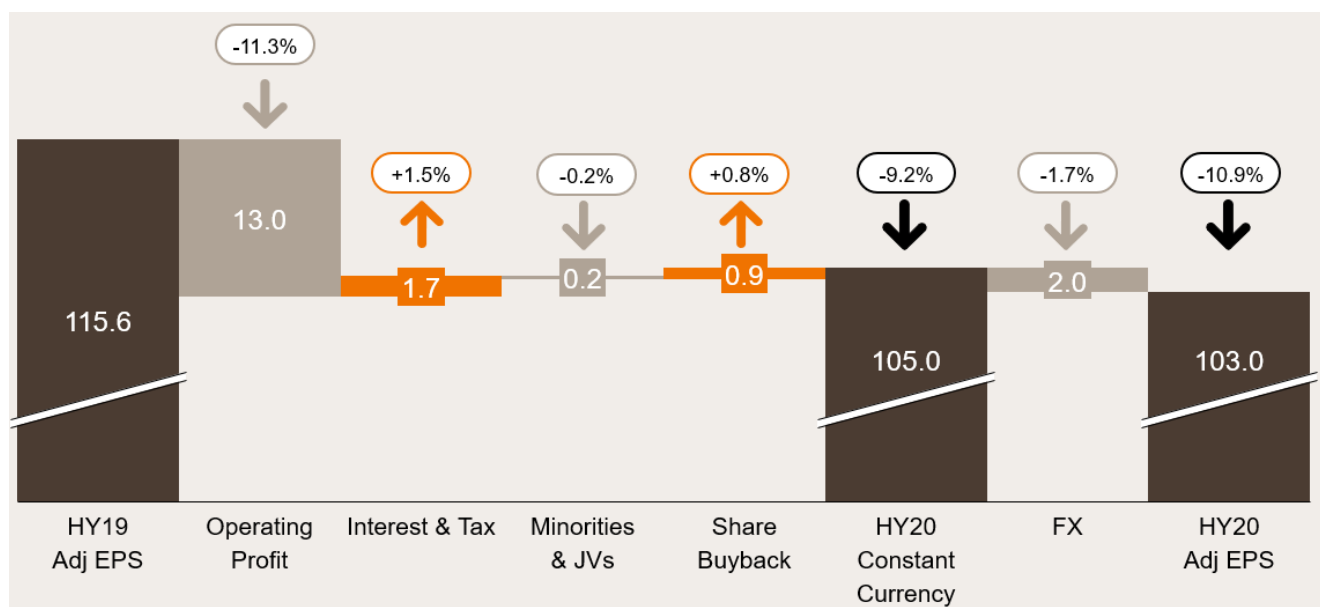
Adjusted operating profit affected by NGP one-off charges and weaker NGP trading

- Adjusted operating profit down 9.3% at actual rates and 7.7% at constant currency
- Tobacco adjusted operating profit down 0.7% at constant currency
- NGP profitability affected by lower NGP net revenue; inventory write-offs and impairment of intangible assets
- Reported operating profit down 19.6% due to lower adjusted operating profit; a goodwill impairment on assets held for disposal of the Premium Cigar Division (£138m) and higher restructuring costs (£40m), more than offsetting the prior year increase in contingent consideration for Von Erl (2019: £119m) not repeated this year
- Premium Cigar impairment will be partly offset on completion by £300m to £400m of FX gains from reserves



Adjusted earnings per share of 105.0p down 9.2% at constant currency

- Lower interest costs more than offset a higher tax rate benefiting EPS by 1.7p with change in the mix of debt with more favourable rates
- Reported EPS of 55.6p, down 21.9% due to lower reported operating profit as outlined on the previous page



Group Results – Constant Currency Analysis

£ million (unless otherwise indicated)	Half Year ended 31 March 2019	Foreign exchange	Constant currency movement	Half Year ended 31 March 2020	Change	Constant currency change
Tobacco & NGP Net Revenue						
Europe	1,680	(29)	(33)	1,618	-3.7%	-2.0%
Americas	1,114	9	(31)	1,092	-2.0%	-2.8%
Africa, Asia and Australasia	862	(13)	33	882	+2.3%	+3.8%
Total Group	3,656	(33)	(31)	3,592	-1.7%	-0.9%
Tobacco & NGP Adjusted Operating Profit						
Europe	771	(13)	(52)	706	-8.4%	-6.7%
Americas	439	3	(52)	390	-11.2%	-11.8%
Africa, Asia and Australasia	328	(15)	(26)	287	-12.5%	-7.9%
Total Group	1,538	(25)	(130)	1,383	-10.1%	-8.5%
Distribution						
Distribution fees	499	(10)	(1)	488	-2.2%	-0.2%
Adjusted operating profit	102	(2)	(5)	95	-6.9%	-4.9%
Group Adjusted Results						
Adjusted operating profit	1,620	(27)	(124)	1,469	-9.3%	-7.7%
Adjusted net finance costs	(220)	3	7	(210)	-4.5%	-3.2%
Adjusted EPS (pence)	115.6	(2.0)	(10.6)	103.0	-10.9%	-9.2%

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 performance from one period to the next. 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.

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.

Group Earnings Performance

£ million unless otherwise indicated	Adjusted		Reported	
	2020	2019	2020	2019
Operating profit				
Tobacco & NGP	1,383	1,538	880	1,110
Distribution	95	102	54	60
Eliminations	(9)	(20)	(9)	(20)
Group operating profit	1,469	1,620	925	1,150
Net finance costs	(210)	(220)	(160)	(156)
Share of profit of investments accounted for using the equity method	20	24	20	24
Profit before tax	1,279	1,424	785	1,018
Tax	(265)	(278)	(235)	(310)
Minority interest	(41)	(44)	(25)	(29)
Profit for the period	973	1,102	525	679
Earnings per ordinary share (pence)	103.0	115.6	55.6	71.2

Reconciliation of Adjusted Performance Measures

£ million unless otherwise indicated	Operating profit		Net finance costs		Earnings per share (pence)	
	2020	2019	2020	2019	2020	2019
Reported	925	1,150	(160)	(156)	55.6	71.2
Acquisition and disposal costs	14	-	-	-	1.5	-
Amortisation & impairment of acquired intangibles	436	297	-	-	44.1	31.8
Excise tax provision	(23)	-	-	-	(2.4)	-
Fair value adjustment of acquisition consideration		119	-	-	-	12.5
Fair value adjustment loan receivable	23	-	-	-	1.7	-
Net fair value and exchange movements on derivative financial instruments	-	-	(53)	(67)	(0.5)	(6.9)
Post-employment benefits net financing costs	-	-	3	3	0.1	0.1
Restructuring costs	94	54	-	-	7.4	4.4
Tax on unrecognised losses	-	-	-	-	(2.8)	4.1
Items above attributable to non-controlling interests	-	-	-	-	(1.7)	(1.6)
Adjusted	1,469	1,620	(210)	(220)	103.0	115.6

A challenging trading environment

Our tobacco business grew market share for the Group overall and in seven of our 10 priority markets. We experienced an increase in demand in March from wholesaler and retailer customers as they responded to some degree of consumer stock piling and as they built contingency stocks in the event of a supply interruption. We estimate our first half net revenue and adjusted operating profit both increased by about 1% from the net effect of increased buying by retailers and wholesalers in March and the declines in our duty free and travel retail operations due to travel restrictions.

Tobacco volumes fell 0.5 per cent, against an overall market size decline of 4.3 per cent. This is against a weak comparator period, which was affected by three key events: the timing of shipments in the Middle East due to excise and other regulatory changes, the impact of illicit trade in the Ukraine and partner disruption in Algeria. None of these events have re-materialised in the period.

Group net revenue declined 0.9 per cent at constant currency with tobacco net revenue growth contributing 90 percentage points, which has been more than offset by 180 percentage points of decline in NGP net revenue.

Tobacco price/mix was 1.4 per cent, reflecting pricing of 6.7% offset by adverse market mix of 2.6% (e.g. Middle East, Australia) and adverse product mix of 2.7% (e.g. Backwoods USA and downtrading in UK, Germany, Australia).

NGP revenue fell 43 per cent at constant currency reflecting a reduction in inventories in the supply chain, the impact of the US FDA announcement banning flavoured pods and category declines as health concerns with vaping products in the US and the contagion of these announcements on key European markets.

Group adjusted operating profit fell by 7.7 per cent at constant currency. This decline was driven primarily by an increase in inventory provisions for NGP of £76 million reflecting the impact of lower revenues signalled above; of this £48 million relates to our write-down of US flavoured vapour pods. Given the uncertainties in the vapour category and our right-sized investment plans, we have also evaluated our intellectual property assets alongside our revised product launch plans as part of our half year impairment testing. This has led to an impairment of £19m of intangible assets relating to technology which the Group has decided to no longer pursue. Excluding these write-downs underlying adjusted operating profit fell by 1.8 per cent.

On a reported basis, Group operating profit declined 19.6 per cent with the lower adjusted operating profit as well as a goodwill impairment and associated costs of disposal of the Premium Cigar Division (£147m), higher restructuring costs (£40m), more than offsetting the prior year increase in contingent consideration for Von Erl (2019: £119m) not repeated this year.

The recent announcement of the sale of our Premium Cigars business has required a further impairment on goodwill for the business of £138 million on top of the impairment taken in 2019 of £505 million. It is expected that on completion of the divestment cumulative foreign exchange gains of £300 million to £400 million that have been recognised in reserves will be recycled to the income statement.

The restructuring charge for the period of £94 million (2019: £54 million) relates mainly to our cost optimisation programmes announced in 2013 and 2016. The total restructuring cash flow in the period ended 31 March 2020 was £73 million (2019: £78 million).

Adjusted net finance costs were lower at £210m (2019: £220m) driven by lower interest costs resulting from a higher proportion of Euro denominated debt. Reported net finance costs have increased slightly to £160 million (2019: £156 million).

Our all-in cost of debt decreased to 3.3 per cent (2019: 3.6 per cent) as we continue to optimise our debt portfolio. Our interest cover decreased to 8.7 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: 19.5 per cent) and the effective reported tax rate is 29.9 per cent (2019: 30.5 per cent). The increase in the effective adjusted tax rate was due to an increase in the provision for uncertain tax positions. The reported tax rate is higher than the adjusted tax rate due to limited tax relief on the amortisation of intangible assets and loss utilisation, as well as limited tax relief on the impairment of the Premium Cigars business.

We continue to expect our effective adjusted tax rate for the year ended 30 September 2020 to be around 21.0 per cent. The increase in rate is due to legislative changes in several jurisdictions.

The effective tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets such as Germany 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 103.0 pence (2019: 115.6 pence), down 9.2 per cent at constant currency (down 10.9 per cent at actual rates), reflecting the fall in adjusted operating profit, which has been impacted by the increased NGP inventory provision and impairment in NGP intangible assets.

Reported earnings per share was 55.6 pence (2019: 71.2 pence) down 21.9 per cent, mainly impacted by reported operating profit.

In our total comprehensive income for the period we see a net £398 million gain on actuarial valuations for our three main defined benefit schemes in the UK, Germany and the US. These gains stem mainly from inflation and discount rate assumption changes.

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 c. £600 million. This first programme has now concluded although there remain some cash costs. The second cost programme, announced in November 2016, is expected to deliver a further £300 million of annual savings from September 2020, at a cash restructuring cost of c. £750 million.

A continued focus on reducing product cost and overheads has realised cost savings of £23 million in 2020, all arising from the second programme. This brings the cumulative cost savings from both programmes to £568 million (£305 million from the first and £263 million from the second).

Cash restructuring costs in the half year from the first programme were £9 million (FY2019: £24 million) and £55 million (FY2019: £108 million) for the second, bringing the cumulative net cash cost of the two programmes to £1,021 million (£553 million for the first and £468 million for the second).

Cash Flow and Net Debt

The conversion of adjusted operating profit to operating cash flow remained strong at 103 per cent on a rolling 12-month basis (2019: 66 per cent). Compared with the same 12-month period last year, cash conversion has improved by 37 per cent as the prior period was adversely impacted by the timing of a series of working capital outflows.

Adjusted operating cash conversion is calculated as cash flow from operations pre-restructuring and before interest and tax payments less net capital expenditure relating to property, plant and equipment, software and intellectual property rights as a percentage of adjusted operating profit. During the period we concluded a share buyback programme with a further £92 million shares purchased bringing the total programme to £200 million as originally targeted.

Adjusted net debt increased by £518m on a 12-month basis; £380 million of this increase was driven by foreign exchange, with £345 million due to non-operating flows (payments for Von Erl and share buybacks as well as a settlement with Russian tax authorities), lower EBITDA (£112 million) and increased dividends (£112 million), which were partially offset by a decrease of £395 million in working capital. Reported net debt increased on a 12-month basis by £763 million with the additional increase materially driven by the reporting of lease liabilities under IFRS16 (£302 million) which has been included for the first time.

The denomination of our closing adjusted net debt was split approximately 73 per cent euro and 27 per cent US dollar. As at 31 March 2020, the Group had committed financing in place of around £16.9 billion, which comprised 18 per cent bank facilities and 82 per cent raised from capital markets. A replacement Revolving Credit Facility of €3.5 billion was arranged in the period and was undrawn on 31 March 2020. We are also eligible to participate in the Bank of England's Covid Corporate Financing Facility. Since the beginning of April we have arranged new bilateral facilities totalling €1.1 billion. This was in addition to €600 million of bilateral facilities that were signed in the period, bringing the total bilateral facilities available to €1.7 billion, further enhancing the Group's liquidity.

In April, we announced the agreed sale of our Premium Cigar business, which is expected to complete in the third quarter of the 2020 calendar year. The proceeds will be used for debt reduction.

Dividends

The Group has paid two dividends of 72.00 and 72.01 pence per share in December 2019 and March 2020 respectively, in line with our quarterly dividend payment policy to give shareholders a more regular cash return.

The Board has revisited the Group's capital allocation policy with a view to de-risking the business and further strengthening the balance sheet. It has decided to rebase the dividend by a third to provide increased financial flexibility, with the priority of accelerating debt reduction to the lower end of our existing 2-2.5 times target range, which we expect to achieve by the end of 2022. This implies an annual dividend of 137.71 pence per share.

Accordingly, we have declared an interim dividend of 41.70 pence per share. This dividend will be paid in two payments of 20.85 pence per share on 30 June 2020 and 30 September 2020, with an ex-dividend date of 28 May and 20 August respectively.

New Accounting Standard

The group has adopted on a modified retrospective basis IFRS 16 "leases" on 1 October 2019 and the impact of this adoption can be found in note 1 to the accounts.

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. In 2020 we have changed our measures to exclude one off or non-recurring items and continue to hold restructuring costs as adjusting until the end of the second phase of our cost optimisation programme this year. At the end of 2020 we will review the treatment of restructuring costs in the light of any further business requirements.

Principal Risks and Uncertainties

The principal risks and uncertainties to which the Group is exposed and our standard approach to managing those risks remains unchanged from those identified on pages 33-40 of our 2019 Annual Report and Accounts and cover the following areas:

- Product regulatory change
- Changes in consumer trends
- Innovation
- Significant change in product sales taxes or charges
- Counterfeit or illicit products
- Product supply
- Capabilities
- Health, safety, and well being
- Responsible behaviour
- Litigation
- Tax disputes
- Liquidity and capital adequacy

The Group's Risk Management approach enables ongoing identification and assessment of risks and development and ongoing assessment of related mitigations. We continue to consider risks relating to the wider potential impacts arising from the result of the exit of the United Kingdom from the European Union and any associated regulatory, political, tax or foreign exchange risks. As with all businesses, cyber risks remain an increasing threat to our operations, and we continue to evolve our control frameworks to adapt to the changing nature of such threats.

Coronavirus pandemic:

Additional to the "business as usual" risk landscape we, along with the rest of the world, have been required to respond to, and mitigate the unprecedented and continually evolving impacts of the COVID-19 pandemic. In common with all businesses, the Group has had to manage the potential for disruption in its operations and marketplaces across the globe resulting from both the impacts of the COVID-19 and the resultant actions taken by governments to contain the spread of the virus. To date no material impact has occurred.

The Group has taken, and continues to take, action to minimise related consequences, and to date no short-term material impacts have crystallised. While it is not possible for any organisation to accurately predict the impacts and outcomes of this so far unique situation, the Group continues to mitigate both short and medium-term impacts of the situation.

Crisis management and mitigation of both short and medium-term impacts:

During the crisis the Board has delegated oversight responsibility for the continued mitigation of operational risks to the Group's Coronavirus Steering Committee. The Committee has ensured that senior representatives from across the Group report regularly to ensure active management and positive outcomes in relation to known issues, and to identify and assess emerging or potential risks and impacts upon our control environment. The members agree mitigations and seize opportunities to best ensure the achievement of strategic objectives and the sustainability of the business. A clear communication strategy during the crisis has enabled sharing of support for our people and of ideas and actions to better facilitate effective ways of working in the current situation.

The Group continues to monitor the current material risks developing from COVID-19. Scenario analysis and stress testing have been completed on both current and future commercial and liquidity measures, though the full impact on the Group's business and the permanency of these impacts cannot be accurately calculated at this time; see below. Uncertainties including the length of time for which restrictions might persist, the severity of any further or future required measures and longer-term macro-economic impacts of the pandemic all impact the certainty of predictions and all could result in changes in consumer behaviours to which the Group adapts.

Risk and opportunities:

The outcomes of the COVID-19 pandemic creates both risk and opportunities for the Group, with lessons learned from the current crisis informing future strategy and business planning along with the continued assessment of key commercial considerations including:

Change in consumer trends

- Identification and mitigation of potential further market size decline, resulting from reduced consumption due to illness, retail closures, travel restrictions or other restrictions initiated to manage the pandemic.
- The Group continues to monitor economic conditions and their influence on consumer choices. A reduction in affordability caused by a prolonged recession could increase consumer downtrading (switching to a cheaper brand or category) and/or reduce personal consumption in individual markets. We have seen examples of this during the crisis and have responded quickly and positively to manage changes in consumer preferences.

Product regulatory change, and significant change in product sales taxes or charges

- The likelihood and impact of additional pressure on both market size and consumer preferences resulting from unexpected increases in excise (and other product related taxes) and product regulation post-pandemic.

- A potential increase in illicit trade reducing legitimate market size resulting from the widening cost differential between legitimate duty paid, and illicit non-duty paid product. Increases in product related taxes could drive increased consumption of illicit product as consumers trade-off quality and affordability.
- The Group continues to act in accordance with both legal requirements and the principles of being a responsible manufacturer. Our regulatory affairs teams, supported by scientific affairs, engage with stakeholders to support the argument for rational regulation.

Product supply

- The pandemic has placed pressures upon the Group's supply chain. Raw material supply, manufacturing capacity through factory closures, and distribution capabilities have all been subject to disruption with impacts thus far having been mitigated. Future impacts including the potential reduction in available supply options could result in increased costs.
- In response to the outcomes of the pandemic the Group may seek to re-evaluate its supply chain strategy to further ensure the ongoing suitability of its supply chain to maintain the required insights and agility to maintain success.

Liquidity and capital adequacy

- The socio-economic impacts on economies around the world may cause an increased risk of customer/counter-party failure.
- In response the Group has further increased its focus on customer credit controls, and the financial stability of suppliers, and this will continue to be closely monitored.
- There are increased risks on cashflow arising from the potential change in timing of material payments, such as duty. This could affect the Group's liquidity, which may also be affected by the availability and cost of continued financing within the global markets. The potential exists for recession within individual countries, the failure of businesses and austerity measures all of which might impact the confidence of, and in, financial institutions and other lenders. The Group manages its liquidity requirements in line with Treasury Committee and Board requirements, including minimum criteria for lender ratings.

IT security, cyber and phishing risks

- The Group has proactively managed its technology infrastructure to support our people across the business, with home working better enabled through the roll-out of new software along with user guidance and training.
- There are increased risks associated with home-working, notably in a crisis situation as criminals seek to take advantage of the speed of change and potential pressures within economies and new working practices.
- In response the Group continues to monitor and mitigate these threats and has introduced additional communications to educate employees around phishing and security risks, and further increased key financial controls related to phishing attacks to ensure end-to-end preparedness.

Failure to appropriately consider and mitigate these potential outcomes could result in material adverse effects on the Group, both from the crystallisation of risks, and the failure to seize opportunities in an increasingly dynamic marketplace.

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 Directors have assessed the principal risks set out above, 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 the scenarios which examined the implications of:

- A rapid and lasting deterioration to the Group's profitability because markets become closed to tobacco products or there are sustained failures to our tobacco manufacturing and supply chains. These assumed a permanent reduction in profitability of 15 per cent and another by 30 per cent from 1 June 2020.
- The additional impact of potential bad debt risks arising from a recession.
- The withdrawal of facilities that provide receivables factoring.
- Various scenarios involving the closure of the entire factory network over a one, two and three-month period from 1 May 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 planning also considered mitigation actions including reductions to capital expenditure and dividend payments. There are additional actions that were not modelled but could be taken including other cost mitigations such as staff redundancies, retrenchment of leases, and discussions lenders about capital structure.

Further to the signing of the Group's new €3.5 billion multi-currency revolving credit facility in March, we have taken further steps to strengthen the Group's resilience to different potential scenarios through: the agreement to sell our

Premium Cigar business, where the proceeds will be used for debt reduction; the signing of €1.7 billion committed 18 month bank facilities, and our ability to participate in the Bank of England's Covid Corporate Financing Facility.

Based on this review, and having assessed the principal risks facing the Group, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet operational needs for a period of at least 12 months from the date of this report and concludes that it is appropriate to prepare the financial statements on a going concern basis.

Statement of Directors' Responsibilities

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely: an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and material related party transactions in the first six months of the current financial year and any material changes in the related-party transactions described in the last annual report.

A list of current directors is maintained on the Imperial Brands PLC website: www.imperialbrandsplc.com.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Oliver Tant
Chief Financial Officer

SUMMARY OF KEY FOOTPRINT FINANCIALS & METRICS

FOOTPRINT		Half Year Result		Change	
		2020	2019	Actual	Constant Currency
Volume					
Europe	bn SE	62.7	64.6	-3.0%	
Americas	bn SE	9.8	10.0	-2.5%	
Africa, Asia and Australasia	bn SE	42.2	40.6	+4.0%	
Total Group	bn SE	114.6	115.2	-0.5%	
Tobacco Net Revenue					
Europe	£m	1,588	1,607	-1.2%	+0.5%
Americas	£m	1,062	1,053	+0.9%	0.0%
Africa, Asia and Australasia	£m	859	848	+1.3%	+2.9%
Total Group	£m	3,509	3,508	0.0%	+0.9%
Tobacco Net Revenue per '000 SE					
Europe	£	25.34	24.88	+1.9%	+3.6%
Americas	£	108.70	105.09	+3.4%	+2.6%
Africa, Asia and Australasia	£	20.36	20.91	-2.6%	-1.1%
Total Group	£	30.62	30.45	+0.6%	+1.5%
Tobacco Price/Mix					
Europe	%			+1.8%	+3.5%
Americas	%			+3.4%	+2.5%
Africa, Asia and Australasia	%			-2.7%	-1.1%
Total Group	%			+0.5%	+1.4%
NGP Net Revenue					
Europe	£m	30	73	-58.9%	-56.2%
Americas	£m	30	61	-50.8%	-50.8%
Africa, Asia and Australasia	£m	23	14	+64.3%	+57.1%
Total Group	£m	83	148	-43.9%	-43.2%
Adjusted Tobacco & NGP Operating Profit					
Europe	£m	706	771	-8.4%	-6.7%
Americas	£m	390	439	-11.2%	-11.8%
Africa, Asia and Australasia	£m	287	328	-12.5%	-7.9%
Total Group	£m	1,383	1,538	-10.1%	-8.5%
Distribution					
Distribution Fees	£m	488	499	-2.2%	-0.2%
Operating Profit	£m	95	102	-6.9%	-4.9%
Operating Margin	%	19.5	20.4	-90 bps	-90 bps

SUMMARY OF KEY PORTFOLIO FINANCIALS & METRICS

PORTFOLIO		Half Year Result		Change	
		2020	2019	Actual	Constant Currency
Asset Brand Net Revenue					
Europe	£m	1,186	1,251	-5.2%	-3.7%
Americas	£m	560	607	-7.7%	-8.5%
Africa, Asia and Australasia	£m	544	496	+9.6%	+11.7%
Total Group	£m	2,290	2,354	-2.8%	-1.7%
Asset Brands as % of Net Revenue					
Europe	%	73.3	74.5	-120 bps	-140 bps
Americas	%	51.3	54.5	-320 bps	-320 bps
Africa, Asia and Australasia	%	61.6	57.5	+410 bps	+440 bps
Total Group	%	63.7	64.4	-70 bps	-50 bps
Portfolio Brands Net Revenue					
Total Group	£m	1,302	1,302	+0.1%	0.7%
% of Total Net Revenue	%	36.3	35.6	70 bps	50 bps

2019 Asset Brand net revenue has been restated for reclassification of brands. See Basis of Presentation on page 2.

Introduction

We have been engaged by the Company to review the condensed consolidated set of financial statements in the Interim Results of Imperial Brands PLC for the six months ended 31 March 2020 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The Interim Results are the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in the Interim Results has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Interim Results based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 31 March 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
19 May 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

£ million unless otherwise indicated	Notes	Unaudited	Unaudited	Audited
		6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Revenue	3	14,672	14,390	31,594
Duty and similar items		(7,107)	(6,961)	(15,394)
Other cost of sales		(4,797)	(4,613)	(9,960)
Cost of sales		(11,904)	(11,574)	(25,354)
Gross profit		2,768	2,816	6,240
Distribution, advertising and selling costs		(1,152)	(1,092)	(2,295)
Acquisition and disposal costs		(14)	-	(22)
Amortisation and impairment of acquired intangibles	11	(436)	(297)	(1,118)
Excise tax provision		23	-	-
Fair value adjustment of acquisition consideration		-	(119)	(129)
Fair value adjustment of loan receivable	13	(23)	-	-
Restructuring costs	4	(94)	(54)	(144)
Other expenses		(147)	(104)	(196)
Administrative and other expenses		(691)	(574)	(1,748)
Operating profit	3/5	925	1,150	2,197
Investment income		624	490	890
Finance costs		(784)	(646)	(1,452)
Net finance costs	5	(160)	(156)	(562)
Share of profit of investments accounted for using the equity method		20	24	55
Profit before tax		785	1,018	1,690
Tax	7	(235)	(310)	(609)
Profit for the period		550	708	1,081
Attributable to:				
Owners of the parent		525	679	1,010
Non-controlling interests		25	29	71
Earnings per ordinary share (pence)				
- Basic	9	55.6	71.2	106.0
- Diluted	9	55.5	71.0	105.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£ million		Unaudited	Unaudited	Audited
		6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Profit for the period		550	708	1,081
Other comprehensive income				
Exchange movements		(140)	(223)	270
Items that may be reclassified to profit and loss		(140)	(223)	270
Net actuarial gains/(losses) on retirement benefits	6	533	(118)	(248)
Deferred tax relating to net actuarial gains/(losses) on retirement benefits		(135)	11	52
Items that will not be reclassified to profit and loss		398	(107)	(196)
Other comprehensive income/(expense) for the period, net of tax		258	(330)	74
Total comprehensive income for the period		808	378	1,155
Attributable to:				
Owners of the parent		784	372	1,086
Non-controlling interests		24	6	69
Total comprehensive income for the period		808	378	1,155

CONSOLIDATED BALANCE SHEET

£ million	Notes	Unaudited	Unaudited	Audited
		31 March 2020	31 March 2019	30 September 2019
Non-current assets				
Intangible assets	11	18,246	18,428	18,596
Property, plant and equipment		1,937	1,871	1,979
Right of use assets		300	-	-
Investments accounted for using the equity method		85	850	81
Retirement benefit assets	6	1,065	566	595
Trade and other receivables		101	73	119
Derivative financial instruments	12/13	816	473	677
Deferred tax assets		607	527	595
		23,157	22,788	22,642
Current assets				
Inventories		5,101	4,071	4,082
Trade and other receivables		2,697	2,949	2,993
Current tax assets		203	158	303
Cash and cash equivalents	12	773	539	2,286
Derivative financial instruments	12/13	186	57	137
Current assets held for disposal	10	1,125	-	1,287
		10,085	7,774	11,088
Total assets		33,242	30,562	33,730
Current liabilities				
Borrowings	12	(3,418)	(3,307)	(1,937)
Derivative financial instruments	12/13	(51)	(82)	(28)
Trade and other payables		(9,131)	(7,634)	(9,536)
Lease liabilities	1/12	(61)	-	-
Current tax liabilities		(358)	(269)	(421)
Provisions	4	(156)	(141)	(284)
Current liabilities held for disposal	10	(189)	-	(176)
		(13,364)	(11,433)	(12,382)
Non-current liabilities				
Borrowings	12	(10,719)	(10,039)	(11,697)
Derivative financial instruments	12/13	(1,429)	(1,022)	(1,408)
Trade and other payables		(7)	(121)	(7)
Finance lease creditors	1/12	(241)	-	-
Deferred tax liabilities		(1,245)	(1,104)	(1,156)
Retirement benefit liabilities	6	(1,103)	(1,066)	(1,249)
Provisions	4	(242)	(251)	(247)
		(14,986)	(13,603)	(15,764)
Total liabilities		(28,350)	(25,036)	(28,146)
Net assets		4,892	5,526	5,584
Equity				
Share capital		103	103	103
Share premium and capital redemption		5,837	5,837	5,837
Retained earnings		(2,779)	(1,804)	(2,255)
Exchange translation reserve		1,113	780	1,252
Equity attributable to owners of the parent		4,274	4,916	4,937
Non-controlling interests		618	610	647
Total equity		4,892	5,526	5,584

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
At 01 October 2019	103	5,837	(2,255)	1,252	4,937	647	5,584
Profit for the period	-	-	525	-	525	25	550
Exchange movements	-	-	-	(139)	(139)	(1)	(140)
Net actuarial gains on retirement benefits	-	-	533	-	533	-	533
Deferred tax relating to net actuarial gains on retirement benefits	-	-	(135)	-	(135)	-	(135)
Other comprehensive income/(expense)	-	-	398	(139)	259	(1)	258
Total comprehensive income/(expense)	-	-	923	(139)	784	24	808
Transactions with owners							
Cost of employees' services	-	-	9	-	9	-	9
Changes in non-controlling interests	-	-	(5)	-	(5)	5	-
Deferred tax on share-based payments	-	-	1	-	1	-	1
Cancellation of share capital	-	-	(92)	-	(92)	-	(92)
Dividends paid	-	-	(1,360)	-	(1,360)	(58)	(1,418)
At 31 March 2020	103	5,837	(2,779)	1,113	4,274	618	4,892
At 01 October 2018	103	5,837	(1,155)	980	5,765	675	6,440
Profit for the period	-	-	679	-	679	29	708
Exchange movements	-	-	-	(200)	(200)	(23)	(223)
Net actuarial losses on retirement benefits	-	-	(118)	-	(118)	-	(118)
Deferred tax relating to net actuarial losses on retirement benefits	-	-	11	-	11	-	11
Other comprehensive expense	-	-	(107)	(200)	(307)	(23)	(330)
Total comprehensive income/(expense)	-	-	572	(200)	372	6	378
Transactions with owners							
Costs of employees' services compensated by share schemes	-	-	14	-	14	-	14
Changes in non-controlling interests	-	-	13	-	13	(13)	-
Dividends paid	-	-	(1,248)	-	(1,248)	(58)	(1,306)
At 31 March 2019	103	5,837	(1,804)	780	4,916	610	5,526

CONSOLIDATED CASHFLOW STATEMENT

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Cash flows from operating activities			
Operating profit	925	1,150	2,197
Dividends received from investments accounted for under the equity method	23	27	54
Depreciation, amortisation and impairment	592	413	1,316
Profit on disposal of non-current assets	-	(16)	(19)
Post-employment benefits	(88)	(86)	(72)
Costs of employees' services compensated by share schemes	9	14	23
Fair value adjustment of acquisition consideration	-	119	129
Fair value adjustment of loan receivable	23	-	-
Movement in provisions	(129)	(56)	80
Operating cash flows before movement in working capital	1,355	1,565	3,708
Increase in inventories	(1,108)	(478)	(560)
Decrease/(increase) in trade and other receivables	264	(439)	(267)
(Decrease)/Increase in trade and other payables	(130)	(452)	877
Movement in working capital	(974)	(1,369)	50
Tax paid	(254)	(248)	(522)
Net cash flows generated/(used in) from operating activities	127	(52)	3,236
Cash flows from investing activities			
Interest received	6	5	15
Loan to joint ventures	-	4	4
Loan to third parties	-	-	(75)
Proceeds from the sale of non-current assets	6	45	57
Purchase of non-current assets	(171)	(190)	(409)
Purchases of shares	(3)	-	-
Purchase of brands and operations	(143)	-	(17)
Net cash used in investing activities	(305)	(136)	(425)
Cash flows from financing activities			
Interest paid	(318)	(309)	(488)
Cash from employees on maturity/exercise of share schemes	-	-	1
Lease liabilities paid	(37)	-	-
Increase in borrowings	1,239	2,539	3,699
Repayment of borrowings	(639)	(912)	(2,330)
Cash flows relating to derivative financial instruments	38	(19)	(117)
Repurchase of shares	(92)	-	(108)
Dividends paid to non-controlling interests	(58)	(58)	(84)
Dividends paid to owners of the parent	(1,360)	(1,248)	(1,844)
Net cash used in financing activities	(1,227)	(7)	(1,271)
Net (decrease)/increase in cash and cash equivalents	(1,405)	(195)	1,540
Cash and cash equivalents at the start of period	2,286	775	775
Effect of foreign exchange rates on cash and cash equivalents	(75)	(41)	(15)
Transferred to held for disposal	(33)	-	(14)
Cash and cash equivalents at the end of period	773	539	2,286

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial information comprises the unaudited results for the six months ended 31 March 2020 and 31 March 2019, together with the audited results for the year ended 30 September 2019.

The comparative information shown for the year ended 30 September 2019 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006, and does not reflect all of the information contained in the Group's published financial statements for that year. The Auditors' Report on those statements was unqualified and did not contain any statements under section 498 of the Companies Act 2006. The financial statements for the year ended 30 September 2019 were approved by the Board of Directors on 5 November 2019 and have been filed with the Registrar of Companies.

This condensed set of financial statements for the six months ended 31 March 2020 has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed set of financial statements for the six months ended 31 March 2020 should be read in conjunction with the annual financial statements for the year ended 30 September 2019 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements. Further details of this assessment are set out in the Liquidity and Going Concern section of the Finance Review.

The Group's principal accounting policies and methods of computation used in preparing this information are, with the exception of those detailed below, the same as those applied in the financial statements for the year ended 30 September 2019, which are available on our website www.imperialbrandsplc.com.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

IFRS 16 'LEASES'

With effect from 1 October 2019, the Group has adopted IFRS 16 Leases to contracts which are, or contain, leases of assets.

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

IFRS 16 was applied using the modified retrospective method, to contracts that were previously identified as operating leases in accordance with IAS 17 and IFRIC 4. There was no restatement of prior periods.

IMPACT OF IFRS 16 'LEASES'

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

£ million	As reported at 30 September 2019	IFRS 16 Adjustment	On adoption at 1 October 2019
Property, plant and equipment	1,979	327	2,306
Current assets			
Trade and other receivables	2,993	(1)	2,992
Current liabilities			
Borrowings	(1,937)	(65)	(2,002)
Non-current liabilities			
Borrowings	(11,697)	(261)	(11,958)
Other net assets/(liabilities)	14,246	-	14,246
Net assets	5,584	-	5,584

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

The impact of IFRS 16 to the Group results for the six months ended 31 March 2020 increased depreciation by £34 million relating to the depreciation on the new right of use assets and increased Finance costs by £5 million relating to the interest expense on the lease liabilities recognised. Lease expense recognised in the cost of sales and distribution, advertising and selling costs expenses line items in the interim consolidated income statement reduced by approximately £35 million. Cash outflows from operating activities decreased by approximately £1 million and cash outflows from financing activities increased by £5 million.

The Group's new accounting policies upon adoption of IFRS 16 are detailed below:

RIGHT OF USE ASSETS

The Group recognises right of use assets, within property, plant and equipment, at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

LEASE LIABILITIES

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments which depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments include the exercise of purchase options if determined reasonably certain to be exercised and termination payments if the lease term reflects the exercise of an option to terminate.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate, defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment, at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accumulation of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The weighted average incremental borrowing rate applied in discounting lease commitments was 3%.

SHORT TERM LEASES, LEASES OF LOW VALUE ASSETS AND PRACTICAL EXPEDIENTS APPLIED

The Group has applied a number of practical expedients permitted by IFRS 16. These include:

- the exclusion of leases where the lease term ends within 12 months of the commencement of the lease or date of initial application.
- the exclusion of leases of low value assets, defined as those of less than US\$5,000.

In addition, on initial application, the Group has elected to:

- apply hindsight in determining the lease term if the contract contains options to extend or terminate the lease
- exclude initial direct costs from the measurement of the right of use asset
- use a single discount rate to a portfolio of leases with reasonably similar characteristics

Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term in cost of sales or distribution, advertising and selling costs.

Reconciliation between Minimum Lease commitments as at 30 September 2019:

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

IFRIC 23 'Uncertainty over income tax treatments'

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

USE OF ADJUSTED MEASURES

Management believes that non-GAAP or adjusted measures provide an important comparison of business performance and reflect the way in which the business is controlled. The adjusted measures seek to remove the distorting effects of a number of significant gains or losses arising from transactions which are not directly related to the ongoing underlying performance of the business and may be non-recurring events or not directly within the control of management.

Accordingly, adjusted measures of operating profit, net finance costs, profit before tax, tax, attributable earnings and earnings per share exclude, where applicable, acquisition and disposal costs, amortisation and impairment of acquired intangibles, restructuring costs, post-employment benefits net financing cost, fair value and exchange gains and losses on financial instruments, and related tax effects and tax matters. Reconciliations between adjusted and reported operating profit are included within note 3 to the financial statements, adjusted and reported net finance costs in note 5, adjusted and reported tax in note 7, and adjusted and reported earnings per share in note 9.

The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The items excluded from adjusted results are those which are one-off in nature or items which arose due to acquisitions and are not influenced by the day to day operations of the Group, and the movements in the fair value of financial instruments which are marked to market and not naturally offset. Adjusted net finance costs also excludes all post-employment benefit net finance cost since pension assets and liabilities and redundancy and social plan provisions do not form part of adjusted net debt. This allows comparison of the Group's cost of debt with adjusted net debt. The adjusted measures are used by management to assess the Group's financial performance and aid comparability of results year on year.

The principal adjustments made to reported profits are as follows:

ACQUISITION AND DISPOSAL COSTS

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

AMORTISATION AND IMPAIRMENT OF ACQUIRED INTANGIBLES

Acquired intangibles are amortised over their estimated useful economic lives where these are considered to be finite. Acquired intangibles considered to have an indefinite life are not amortised. Any negative goodwill arising is recognised immediately in the income statement. We exclude from our adjusted measures the amortisation and impairment of acquired intangibles, other than software and internally generated intangibles, and the deferred tax associated with amortisation of acquired intangibles.

It is recognised that there may be some correlation between the amortisation charges derived from the acquisition value of acquired intangibles, and the subsequent future profit streams arising from sales of associated branded products. However, the amortisation of intangibles is not directly related to the operating performance of the business. Conversely, the level of profitability of branded products is directly influenced by day to day commercial actions, with variations in the level of profit derived from branded product sales acting as a clear indicator of performance. Given this, the Group's view is that amortisation and impairment charges do not clearly correlate to the ongoing variations in the commercial results of the business and are therefore excluded to allow a clearer view of the underlying performance of the organisation. The deferred tax is excluded on the basis that it will only crystallise upon disposal of the intangibles and goodwill. The related current cash tax benefit is retained in the adjusted measure to reflect the ongoing tax benefit to the Group.

FAIR VALUE GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS AND EXCHANGE GAINS AND LOSSES ON BORROWINGS

IFRS 9 requires that all derivative financial instruments are recognised in the consolidated balance sheet at fair value, with changes in the fair value being recognised in the consolidated income statement unless the instrument satisfies the hedge accounting rules under IFRS and the Group chooses to designate the derivative financial instrument as a hedge.

The Group hedges underlying exposures in an efficient, commercial and structured manner. However, the strict hedging requirements of IFRS 9 may lead to some commercially effective hedge positions not qualifying for hedge accounting. As a result, and as permitted under IFRS 9, the Group has decided not to apply cash flow or fair value hedge accounting for its derivative financial instruments. However, the Group does apply net investment hedging, designating certain borrowings and derivatives as hedges of the net investment in the Group's foreign operations, as permitted by IFRS 9, in order to reduce income statement volatility.

We exclude fair value gains and losses on derivative financial instruments and exchange gains and losses on borrowings from adjusted net finance costs. Fair value gains and losses on the interest element of derivative financial instruments are excluded as there is no direct natural offset between the movements on derivatives and the interest charge on debt in any one period, as the derivatives and debt instruments may be contracted over different periods, although they will reverse over time or are matched in future periods by interest charges. The fair value gains on derivatives are excluded as they can introduce volatility in the finance charge for any given period.

Fair value gains and losses on the currency element of derivative financial instruments and exchange gains and losses on borrowings are excluded as the relevant foreign exchange gains and losses on the instruments in a net investment hedging relationship are accumulated as a separate component of other comprehensive income in accordance with the Group's policy on foreign currency.

Fair value movements arising from the revaluation of contingent consideration liabilities are adjusted out where they represent one-off acquisition costs that are not linked to the current period underlying performance of the business. Fair value adjustments on loans receivable measured at fair value are excluded as they arise due to counterparty credit risk changes that are not directly related to the underlying commercial performance of the business.

RESTRUCTURING COSTS

Significant one-off costs incurred in integrating acquired businesses and in major rationalisation and optimisation initiatives together with their related tax effects are excluded from our adjusted earnings measures. These include restructuring costs incurred as part of fundamental multi-year transformational change projects but do not include costs related to ongoing cost reduction activity. These costs are all Board approved, and include impairment of property, plant and equipment which are surplus to requirements due to restructuring activity. These costs are required in order to address structural issues associated within operating within the Tobacco sector that have required action to both modernise and right-size the organisation, ultimately delivering an operating model suitable for the future of the business. The Group's view is that as these costs are both significant and one-off in nature, excluding them allows a clearer presentation of the underlying costs of the business.

POST-EMPLOYMENT BENEFITS NET FINANCE COST

The net interest on defined benefit assets or liabilities, together with the unwind of discount on redundancy, social plans and other long-term provisions are reported within net finance costs. These items together with their related tax effects are excluded from our adjusted earnings measures, as they primarily represent charges associated with historic employee benefit commitments, rather than the ongoing current period costs of operating the business.

TAX MATTERS

Tax matters are significant one-off tax charges or credits arising from:

- prior period tax items (including re-measurement of deferred tax balances on a change in tax rates); or
- a provision for uncertain tax items not arising in the normal course of business; or
- newly enacted taxes in the year; or
- tax items that are closely related to previously recognised tax matters, and are excluded from our adjusted tax charge to aid comparability and understanding of the Group's performance.

The recognition and utilisation of deferred tax assets relating to losses not historically generated in the normal course of business are excluded on the same basis.

OTHER NON-GAAP MEASURES USED BY MANAGEMENT

NET REVENUE

Tobacco and NGP net revenue comprises associated revenue less duty and similar items, excluding peripheral products. Management considers this an important measure in assessing the performance of Tobacco and NGP operations.

The Group recognises revenue on sales to Logista, a Group company, within its Tobacco and NGP Net Revenue as disclosed in the segment information per Note 3. As the revenue calculation includes sales made to Logista from other Group companies but excludes Logista's external sales, this metric differs from revenue calculated under IFRS accounting standards. For the purposes of Adjusted Performance Measures on Net Revenue we treat Logista as an arms length distributor on the basis that contractual rights are in line with other Third Party suppliers to Logista. Variations in the amount of inventory held by Logista results in a different level of revenue compared to that which is included within the income statement. For tobacco product sales, inventory level variations are normally not significant. Where appropriate, to avoid distortions in the reported Tobacco and Net revenue figure, the calculation has been adjusted to reflect sales to Logista based on normalised levels of inventory.

DISTRIBUTION FEES

Distribution fees comprises the Distribution segment revenue less the cost of distributed products. Management considers this an important measure in assessing the performance of Distribution operations. The eliminations in note 3 all relate to sales to Distribution.

ADJUSTED OPERATING CASH

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

ADJUSTED NET DEBT

Management monitors the Group's borrowing levels using adjusted net debt which excludes interest accruals, lease commitments and the fair value of derivative financial instruments providing commercial hedges of interest rate risk. The adjusted net debt metric is used in monitoring performance against various debt management obligations including covenant compliance.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience, and other factors, including expectations of future events that are based on Management's best assessment using all available information.

In the future, actual experience may deviate from these estimates and assumptions.

Actuarial valuations for the Group's retirement benefit plans are updated annually as at 30 September. An interim update is carried out at 31 March for the main plans. As part of this interim update, the most material plan assets are revalued based on market data at the period end and the liabilities for the most significant schemes are recalculated to reflect key changes in membership data and revised actuarial assumptions.

The Group has various obligations to potentially pay consideration in the future, related to past acquisitions. The amount of consideration payable is contingent on the level of the Group's future financial performance and certain other targets being met. The calculation of contingent consideration liabilities requires the use of forecasts and other forward looking information, which may vary over time. Forecasts always contain an inherent level of uncertainty and therefore there will be judgement involved in valuing contingent consideration liabilities. The liabilities are reassessed at each reporting date, based on the latest available information, and therefore may change in value over time.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed in note 2 of the financial statements for the year ended 30 September 2019.

Those risks particularly relevant to the current period and the remaining 6 months of the year include:

- Determination of the useful life of intangible assets
- Amortisation and impairment of intangible assets
- Income taxes
- Legal proceedings and disputes
- Retirement benefits
- Provisions
- Inventory provisions in NGP
- Assets held for sale

CONTROL OF LOGISTA

The Group continues to determine that it has effective control of Logista, principally by virtue of its holding 50.01% of the voting shares and the powers set out in the Relationship Framework Agreement; and that it is appropriate to consolidate this entity in line with the requirements of IFRS 10 Consolidated Financial Statements.

3. SEGMENT INFORMATION

Imperial Brands comprises two distinct businesses – Tobacco & NGP and Distribution. The Tobacco & NGP business comprises the manufacture, marketing and sale of Tobacco & NGP and Tobacco & NGP-related products, including sales to (but not by) the Distribution business. The Distribution business comprises the distribution of Tobacco & NGP products for Tobacco & NGP product manufacturers, including Imperial Brands, as well as a wide range of non-Tobacco & NGP products and services. The Distribution business is run on an operationally neutral basis ensuring all customers are treated equally, and consequently transactions between the Tobacco & NGP and Distribution businesses are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

The function of Chief Operating Decision Maker (defined in IFRS 8), which is to review performance and allocate resources, is performed by the Board and the Interim Joint Chief Executives, who are regularly provided with information on our segments. This information is used as the basis of the segment revenue and profit disclosures provided below. The main profit measure used by the Board and the Interim Joint Chief Executives is adjusted operating profit. Segment balance sheet information is not provided to the Board or the Joint Interim Chief Executives.

Our operating segments are Europe, Americas, Africa, Asia & Australasia (AAA) and Distribution. Operating segments are comprised of geographical groupings of business markets. The main Tobacco & NGP business markets within the Europe, Americas and AAA operating segments are:

Europe – United Kingdom, Germany, Spain, France, Italy, Greece, Sweden, Norway, Belgium, Netherlands, Ukraine and Poland.

Americas – United States and Canada.

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

REVENUE

£ million	Unaudited		Unaudited		Audited	
	6 months ended		6 months ended		Year ended	
	31 March 2020		31 March 2019		30 September 2019	
	Total revenue	External revenue	Total revenue	External revenue	Total Revenue	External revenue
Tobacco & NGP						
Europe	6,390	6,044	6,553	6,122	14,152	13,359
Americas	1,486	1,486	1,517	1,517	3,358	3,358
Africa, Asia & Australasia	2,836	2,836	2,560	2,560	5,908	5,908
Total Tobacco & NGP	10,712	10,366	10,630	10,199	23,418	22,625
Distribution	4,306	4,306	4,191	4,191	8,969	8,969
Eliminations	(346)	-	(431)	-	(793)	-
Total Group	14,672	14,672	14,390	14,390	31,594	31,594

TOBACCO & NGP

£ million unless otherwise indicated	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Revenue	10,712	10,630	23,418
Net revenue	3,592	3,656	7,998
Operating profit	880	1,110	2,074
Adjusted operating profit	1,383	1,538	3,531
Adjusted operating margin %	38.5	42.1	44.1

DISTRIBUTION

£ million unless otherwise indicated	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Revenue	4,306	4,191	8,969
Distribution fees	488	499	1,015
Operating profit	54	60	137
Adjusted operating profit	95	102	232
Adjusted distribution margin %	19.5	20.4	22.9

RECONCILIATION FROM TOBACCO & NGP REVENUE TO TOBACCO & NGP NET REVENUE

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Revenue	10,712	10,630	23,418
Duty and similar items	(7,107)	(6,961)	(15,394)
Sale of peripheral products	(13)	(13)	(26)
Net revenue	3,592	3,656	7,998

TOBACCO & NGP NET REVENUE

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Europe	1,619	1,680	3,636
Americas	1,091	1,114	2,472
Africa, Asia & Australasia	882	862	1,890
Total Tobacco & NGP	3,592	3,656	7,998

ADJUSTED OPERATING PROFIT AND RECONCILIATION TO PROFIT BEFORE TAX

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Tobacco & NGP			
Europe	706	771	1,699
Americas	390	439	1,068
Africa, Asia & Australasia	287	328	764
Total Tobacco & NGP	1,383	1,538	3,531
Distribution	95	102	232
Eliminations	(9)	(20)	(14)
Adjusted operating profit	1,469	1,620	3,749
Acquisition and disposal costs	(14)	-	(22)
Amortisation and impairment of acquired intangibles - Tobacco & NGP	(395)	(255)	(1,033)
Amortisation of acquired intangibles - Distribution	(41)	(42)	(85)
Administration of UK distributor – Tobacco & NGP	23	-	-
Excise tax provision – Tobacco & NGP	-	-	(139)
Fair value adjustment of acquisition consideration	(23)	(119)	(129)
Restructuring costs	(94)	(54)	(144)
Operating profit	925	1,150	2,197
Net finance costs	(160)	(156)	(562)
Share of profit of investments accounted for using the equity method	20	24	55
Profit before tax	785	1,018	1,690

4. RESTRUCTURING COSTS AND PROVISIONS

RESTRUCTURING COSTS

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Employment related	70	27	96
Asset impairments	7	17	29
Other charges	17	10	19
	94	54	144

Restructuring costs analysed by workstream:

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Cost optimisation programme	87	54	144
Other restructuring costs	7	-	-
	94	54	144

The cost optimisation programme (Phase I announced in 2013 and Phase II announced in November 2016) is part of the Group's change in strategic direction to achieve a unique, non-recurring and fundamental transformation of the business. The costs of factory closures and implementation of a standardised operating model are considered to be one off as they are a permanent scaling down of capacity and a once in a generation transformational change respectively. The cost optimisation programme is a discrete, time bound project which, given its scale, will be delivered over a number of years and once delivered the associated restructuring costs will cease.

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

The charge for the period of £94 million (6 months to 2019: £54 million) relates to our Phase II cost implementation process as well as Other restructuring activities.

In the 6 months to 31 March 2020 the cash cost of the cost optimisation programmes was £64 million (6 months 2019: £71 million) bringing the cumulative cash costs of Phase I to £553 million and Phase II to £468 million. Non-cost optimisation in the 6 months to 31 March 2020 totalled £10 million.

Phase II is expected to have a cash implementation cost in the region of £750 million, generating savings of a further £300 million per annum by 2020. Phase I was concluded at the end of 2018.

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

These projects differ from everyday initiatives that are undertaken to improve the efficiency and effectiveness of the ongoing operations business. These costs are required in order to address structural issues involved within operating within the Tobacco sector that require action to both modernise and right-size the organisation, ultimately delivering an operating model suitable for the future of the business. Cost optimisation programme Phase 1 completed in 2018 and Phase 2 is due to complete in 2020.

PROVISIONS

£ million	Unaudited		
	6 months ended 31 March 2020		
	Restructuring	Other	Total
At 1 October 2019	245	286	531
Additional provisions charged to the consolidated income statement	61	13	74
Amounts used	(44)	(130)	(174)
Unused amounts reversed	(4)	(25)	(29)
Transfer to asset held for disposal (note 10)	-	(4)	(4)
Exchange movements	1	(1)	-
At 31 March 2020	259	139	398
Current	134	22	156
Non-current	125	117	242
	259	139	398

Analysed as:

£ million	Unaudited	Unaudited	Audited
	6 months ended	6 months ended	Year ended 30
	31 March 2020	31 March 2019	September 2019
Current	156	141	284
Non-current	242	251	247
	398	392	531

Restructuring provisions relate mainly to our cost optimisation programme, and other provisions relate to local taxes and Logista provisions. It is expected that the majority of both restructuring and other provisions will be utilised in a period of 10 years.

5. ALTERNATIVE PERFORMANCE MEASURES

RECONCILIATION FROM OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

£ million	Notes	Unaudited	Unaudited	Audited
		6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Operating profit		925	1,150	2,197
Acquisition and disposal costs		14	-	22
Amortisation and impairment of acquired intangibles		436	297	1,118
Excise tax provision		(23)	-	139
Fair value adjustment of acquisition consideration		-	119	129
Fair value adjustment of loan receivable		23	-	-
Restructuring costs	4	94	54	144
Adjusted operating profit		1,469	1,620	3,749

RECONCILIATION FROM REPORTED NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Notes	Unaudited	Unaudited	Audited
		6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Reported net finance costs		(160)	(156)	(562)
Fair value gains on derivative financial instruments		(569)	(240)	(665)
Fair value losses on derivative financial instruments		438	347	839
Exchange losses/(gains) on financing activities		78	(174)	(67)
Net fair value and exchange (gains)/losses on financial instruments		(53)	(67)	107
Interest income on net defined benefit assets		(49)	(70)	(142)
Interest cost on net defined benefit liabilities		52	73	147
Post-employment benefits net financing cost		3	3	5
Adjusted net finance costs		(210)	(220)	(450)
Comprising				
Interest on bank deposits		6	6	16
Interest on bank and other loans		(216)	(226)	(466)
Adjusted net finance costs		(210)	(220)	(450)

6. PENSION COSTS

The Group operates a number of retirement benefit schemes for its employees, including both defined benefit and defined contribution schemes. The Group's three principal schemes are defined benefit schemes and are operated by Imperial Tobacco Limited (ITL) in the UK, Reemtsma Cigarettenfabriken GmbH in Germany and ITG Brands in the USA.

DEFINED BENEFIT PLAN ASSETS AND LIABILITIES RECOGNISED IN THE CONSOLIDATED BALANCE SHEET

	Notes	Unaudited	Unaudited	Audited
		6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Retirement benefit assets		1,065	566	595
Retirement benefit liabilities		(1,103)	(1,066)	(1,249)
Net retirement benefit liabilities		(38)	(500)	(654)

The movement in the net retirement benefit is mainly from actuarial gains and losses on the Group's pension assets and liabilities. The actuarial gains and losses were from the changes in principal actuarial assumptions on the Group schemes.

KEY FIGURES AND ASSUMPTIONS USED FOR MAJOR PLANS

£million unless otherwise stated	Unaudited			Unaudited		
	6 months ended 31 March 2020			6 months ended 31 March 2019		
	ITPF	RCP	ITGBH	ITPF	RCP	ITGBH
Defined benefit obligation (DBO)	3,135	618	439	3,643	603	404
Fair value of scheme assets	(4,142)	-	(397)	(4,136)	-	378
Net defined benefit (asset)/liability	(1,007)	618	42	(493)	603	26
Principal actuarial assumptions used (% per annum)						
Discount rate	2.5	1.8	3.3	2.9	1.5	3.9
Future salary increases	2.5	2.3	n/a	3.7	2.9	n/a
Future pension increases	2.5	1.2	n/a	3.2	1.8	n/a
Inflation	2.5	1.2	2.5	3.2	1.8	2.5

£million unless otherwise stated	Audited		
	Year ended 30 September 2019		
	ITPF	RCP	ITGBH
Defined benefit obligation (DBO)	3,880	758	453
Fair value of scheme assets	(4,416)	-	(418)
Net defined benefit (asset)/liability	(536)	758	35
Principal actuarial assumptions used (% per annum)			
Discount rate	1.8	0.9	3.2
Future salary increases	3.1	2.6	n/a
Future pension increases	3.1	1.5	n/a
Inflation	3.1	1.5	2.5

7. TAX
RECONCILIATION FROM REPORTED TAX TO ADJUSTED TAX

Reported tax for the six months ended 31 March 2020 has been calculated on the basis of a forecast effective rate for the year ended 30 September 2020.

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2019	6 months ended 31 March 2019	Year ended 30 September 2019
Reported tax	235	310	609
Deferred tax on amortisation and impairment of acquired intangibles	19	(6)	9
Current tax on excise tax provision	-	-	15
Tax on net fair value and exchange movements on financial instruments	(48)	(1)	31
Tax on post-employment benefits net financing cost	2	2	4
Tax on restructuring costs	24	12	35
Tax on revaluation of investment	7	-	-
Tax on unrecognised losses	26	(39)	(61)
Adjusted tax charge	265	278	642

UNCERTAIN TAX POSITIONS

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £240 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra-group transfer of shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. In September 2018 the dispute was heard before the Commission Nationale, an independent adjudication body, whose decision is advisory only. In October 2018 the Commission issued its report which was favourable to the Group's position. In November 2018 a meeting was held with the French tax authorities to discuss the Commission's decision. In December 2018 the French tax authorities issued their final assessments seeking the full amount of additional tax assessed (£240 million). In January 2019 the Group appealed against the assessment. At this time it is appropriate to maintain the £42 million (2019: £42 million) held in the provision for uncertain tax positions in respect of this matter.

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company regime was published. It concludes that the legislation up until December 2018 does partially represent State Aid. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision the Group, in line with a number of UK corporates, has made a similar application to the European Court. The UK Government is obliged to collect any State Aid granted pending the outcome of the European Court process. The Group has not received any indication from the UK Government as to the quantum of State Aid that it believes the Group has received, if any. The Group considers that the potential amount of additional tax payable, together with interest is between nil and £300 million depending on the basis of calculation. Based upon current advice the Group does not consider any provision is required in relation to this investigation or any other EU State Aid investigation.

The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice.

8. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

£ million	Unaudited	Audited	Audited
	2020	2019	2018
Paid interim of nil pence per share (2019: 134.56 pence, 2018: 122.33 pence)			
- Paid June 2018	-	-	271
- Paid September 2018	-	-	271
- Paid December 2018	-	-	624
- Paid June 2019	-	298	-
- Paid September 2019	-	298	-
- Paid December 2019	-	680	-
Interim dividend paid	-	1,276	1,166
Proposed interim of 41.70 pence per share (2019: nil, 2018: nil)			
- To be paid June 2020	197	-	-
- To be paid September 2020	197	-	-
Interim dividend proposed	394	-	-
Paid final of nil pence per share (2019: 72.01 pence, 2018: 65.46 pence)			
- Paid March 2019	-	-	624
- Paid March 2020	-	680	-
Final dividend	-	680	624
Total ordinary share dividends of 41.70 pence per share (2019: 206.57 pence, 2018: 187.79 pence)	394	1,956	1,790

The declared interim dividend for 2020 amounts to a total dividend of £394 million based on the number of shares ranking for dividend at 31 March 2020. This will be paid in two stages, one in June 2020 and one in September 2020.

The dividend paid during the half year to 31 March 2020 is £1,360 million (2019: £1,248 million).

9. EARNINGS PER SHARE

Basic earnings per share is based on the profit for the period attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the period excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Earnings: basic and diluted – attributable to owners of the Parent Company	525	679	1,101
Millions of shares			
Weighted average number of shares:			
Shares for basic earnings per share	944.6	953.3	953.0
Potentially dilutive share options	1.8	3.2	1.9
Shares for diluted earnings per share	946.4	956.5	954.9
Pence			
Basic earnings per share	55.6	71.2	106.0
Diluted earnings per share	55.5	71.0	105.8

RECONCILIATION FROM REPORTED TO ADJUSTED EARNINGS AND EARNINGS PER SHARE

£ million unless otherwise indicated	Unaudited		Unaudited		Audited	
	6 months ended 31 March 2020		6 months ended 31 March 2019		Year ended 30 September 2019	
	Earnings per share (pence)	Earnings net of tax	Earnings per share (pence)	Earnings net of tax	Earnings per share (pence)	Earnings net of tax
Reported basic	55.6	525	71.2	679	106.0	1,010
Acquisition and disposal costs	1.5	14	-	-	2.3	22
Amortisation and impairment of acquired intangibles	44.1	417	31.8	303	116.4	1,109
Excise tax provision	(2.4)	(23)	-	-	13	124
Fair value adjustment of acquisition consideration	-	-	12.5	119	13.5	129
Fair value adjustment loan receivable	1.7	16	-	-	-	-
Net fair value and exchange gains on financial instruments	(0.5)	(5)	(6.9)	(66)	8.0	76
Post-employment benefits net financing cost	0.1	1	0.1	1	0.1	1
Restructuring costs	7.4	70	4.4	42	11.4	109
Tax on unrecognised losses	(2.8)	(26)	4.1	39	6.4	61
Adjustments above attributable to non-controlling interests	(1.7)	(16)	(1.6)	(15)	(3.8)	(36)
Adjusted	103.0	973	115.6	1,102	273.3	2,605
Adjusted diluted	102.8	973	115.2	1,102	272.8	2,605

10. ASSETS HELD FOR SALE

On 30 April 2019 the Group announced its intention to sell the Premium Cigar Division. At 30 September 2019, the Group presented the assets and liabilities of the business as held for sale. On 27 April 2020 the Group announced that it had agreed the sale of the division for a consideration of €1,225 million and therefore, the IFRS 5 criteria for an asset held for sale presentation continues to have been met as at 31 March 2020.

When the sale of the Premium Cigar Division completes a gain or loss will arise. There are currently cumulative foreign exchange gains recognised in the foreign exchange translation reserve relating to prior retranslations of non-sterling assets held by the Division. On completion, these gains will be recycled from the foreign exchange translation reserve to the income statement and included in the profit or loss on disposal. The amount of the gains that will be recycled is uncertain as that amount will be affected by movements in foreign exchange rates up to the date of completion. We currently estimate the associated cumulative foreign exchange gains at 31 March 2020 to be in the region of £300-£400 million.

IMPAIRMENT TESTING

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

As the sale has been agreed there is now certainty as to the actual level of sale proceeds expected to be achieved and this amount is a decrease on the previous estimate. Therefore, a further impairment of £138 million has been recognised against the carrying value of the assets of this business. The cumulative impairments recognised have been used to fully write down the carrying value of goodwill and have then been allocated pro-rata against other non-current assets, within the current assets held for sale category on the balance sheet. In addition, £45 million of assets relating to the La Romana factory in the Dominican Republic have now been derecognised as assets held for sale and restated within their original asset categories in the balance sheet as a result of a deferral of their sale completion date. Total net assets held for disposal are now £936 million.

We do not expect that the final proceeds will vary significantly to the amount used to determine the fair value and therefore no further disclosure of sensitivities has been given. However, given that disposal price is an estimate it is possible that a gain or loss will still arise on completion. Any reduction in the expected amount of these proceeds would result in a higher impairment and vice-versa. The impairment recognised to date has been used to fully write down the carrying value of goodwill and then allocated pro-rata against other non-current assets, that fall within the current assets held for sale category in the balance sheet.

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

£ million	Unaudited	Audited
	31 March 2020	30 September 2019
Non-current assets		
Intangible assets	89	138
Property, plant and equipment	15	26
Investments accounted for using the equity method	533	574
Trade and other receivables	29	52
Right of use leased assets	7	-
Deferred tax assets	7	11
	680	801
Current assets		
Inventories	194	228
Trade and other receivables	204	244
Cash and cash equivalents	47	14
	445	486
Total Assets	1,125	1,287
Current liabilities		
Trade and other payables	(174)	(172)
Provisions	(4)	(4)
Lease liabilities	(11)	-
	(189)	(176)
Total liabilities	(189)	(176)
Net assets	936	1,111

11. IMPAIRMENT OF INTANGIBLE ASSETS AND INVENTORIES

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indicators that impairment may have arisen. Goodwill is allocated to groups of cash-generating units (CGUs) and is monitored at a Cash Generating Unit Grouping (CGUG) level. The last goodwill impairment test was conducted as at 30 September 2019. We have reviewed goodwill and indefinite life intangible assets for indicators of impairment as required by IAS 36. Following a review of the recoverable values of other intangible assets not currently subject to amortisation, certain development assets with a carrying value of £19m were identified as not being recoverable. An impairment charge for their full carrying value was therefore recognised. We have not identified any other indicators and therefore there is no requirement to undertake a full impairment test at this stage. At present there is a significant level of headroom for the recoverability of goodwill within each CGUG. The next goodwill impairment review will take place on or before the 30 September 2020.

Following a review of the carrying value of inventory, NGP flavour inventory was written down by £48 million and the provision for slow moving inventory was increased by £28 million.

12. NET DEBT

The movements in cash and cash equivalents, borrowings, and derivative financial instruments in the period were as follows:

£ million	Unaudited							Total
	Current Borrowings	Lease Commitments	Non-Current borrowings	Derivative Financial Instruments	Liabilities from financing activities	Cash and cash Equivalents		
At 01 October 2019	(1,937)	-	(11,697)	(622)	(14,256)	2,286	(11,970)	
Reallocation of current borrowings from non-current borrowings	(897)	-	897	-	-	-	-	
Cash flow	(598)	-	(2)	(38)	(638)	(1,405)	(2,043)	
Accretion of interest	37	-	58	14	109	-	109	
Change in fair values	-	-	-	131	131	-	131	
Exchange movements	(23)	-	25	37	39	(75)	(36)	
Transferred to held for disposal	-	-	-	-	-	(33)	(33)	
Lease liabilities	-	(302)	-	-	(302)	-	(302)	
At 31 March 2020	(3,418)	(302)	(10,719)	(478)	(14,917)	773	(14,144)	

ADJUSTED NET DEBT

Management monitors the Group's borrowing levels using adjusted net debt which excludes lease liabilities, interest accruals and the fair value of derivative financial instruments. Adjusted net debt is used for the purpose of debt monitoring as it excludes non-cash accounting adjustments and therefore better tracks operational debt management performance.

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Reported net debt	(14,144)	(13,381)	(11,970)
Accrued interest	53	99	162
Lease commitments	302	-	-
Fair value of interest rate derivatives	313	324	432
Adjusted net debt	(13,476)	(12,958)	(11,376)

The fair value of bonds is estimated to be £12,701 million (2019 6 months: £11,915 million) and has been determined by reference to market prices at the balance sheet date. The carrying value of bonds is £12,621 million (2019 6 months: £11,223 million). The fair value of all other borrowings is considered to be equal to their carrying amount.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

£ million	Unaudited	Unaudited	Audited
	6 months ended 31 March 2020	6 months ended 31 March 2019	Year ended 30 September 2019
Assets			
Interest rate swaps	833	475	669
Forward foreign currency contracts	150	52	104
Cross-currency swaps	19	3	41
Total carrying value of derivative financial assets	1,002	530	814
Liabilities			
Interest rate swaps	(1,151)	(804)	(1,105)
Forward foreign currency contracts	(25)	(9)	(2)
Cross-currency swaps	(341)	(319)	(367)
Carrying value of derivative financial liabilities before collateral	(1,517)	(1,132)	(1,474)
Collateral ¹	37	28	38
Total carrying value of derivative financial liabilities	(1,480)	(1,104)	(1,436)
Total carrying value of derivative financial instruments	(478)	(574)	(622)
Analysed as:			
Interest rate swaps	(318)	(329)	(436)
Forward foreign currency contracts	125	43	102
Cross-currency swaps	(322)	(316)	(326)
Collateral ¹	37	28	38
Total carrying value of derivative financial instruments	(478)	(574)	(622)

¹ Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex

Fair values are determined based on observable market data such as yield curves and foreign exchange rates to calculate the present value of future cash flows associated with each derivative at the balance sheet date, and are consistent with those applied during the year ended 30 September 2019.

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 7). There were no changes to the valuation methods or transfers between hierarchies during the period. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount.

On 25 July 2019 the Company announced that it would invest CAD 123 million by way of a debenture convertible into 19.9 per cent ownership of Auxly at a conversion price of \$0.81 per share. The transaction was completed on 25 September 2019. This investment was classified a financial asset at fair value through profit and loss and sits in Level 3 on the fair value hierarchy using inputs not based upon observable market data. As at 31 March 2020 the fair value was estimated to be £58 million. The fair value loss of £23 million relates to the remeasurement of expected cash flows from the loan receivable discounted at a rate of 14%.

On 16 December 2019 the Group made a further investment in the Auxly cannabis business, purchasing 6 million equity shares for a consideration of £3 million. As at 31 March 2020 this equity investment has been revalued to £1 million, based on the open market price for the shares.

14. SHARE BUY-BACKS

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 percent of issued share capital. During the period the Group purchased 5,098,508 shares at a cost of £92 million (6 months 2019: nil) which were immediately cancelled, increasing the capital redemption reserve.

15. COMPETITION AUTHORITY INVESTIGATIONS AND OTHER LEGAL DEVELOPMENTS

SPAIN

On 12 April 2019 the Spanish National Commission on Markets and Competition (CNMC) announced penalties against Philip Morris Spain, Altadis, JT International Iberia and Logista. Altadis and Logista received fines of €11.4 million and €20.9 million, respectively, from the CNMC. According to the decision, Altadis and Logista are alleged to have infringed competition law by participating in an exchange of sales volume data between 2008 and February 2017. CNMC considers that this conduct had the effect of restricting competition in the Spanish tobacco market. Both companies believe that the arguments made by CNMC that define this conduct as anti-competitive are flawed. In June 2019, both Altadis and Logista commenced appeals to the CNMC's Decision and the fines imposed, in the Spanish High Court where they believe they will be successful, a decision supported by external legal counsel. In September 2019 Altadis and, separately, Logista arranged bank guarantees for the full amount of the fines with the result that payment of the fines have been suspended pending the outcome of the appeals. Therefore, provision for these amounts is not considered appropriate. All procedural deadlines with the Spanish High Court have been suspended indefinitely due to the COVID-19 health crisis and therefore the cases are not expected to progress in the short term.

BELGIUM

On 29 May 2017, the National Competition Authority in Belgium (the BCA) conducted raids at the premises of several manufacturers and wholesalers of tobacco products. The Group's subsidiary in Belgium received a visit from the BCA and is assisting with enquiries including responding to a request for information.

UKRAINE

In February 2017, the Anti-Monopoly Committee in Ukraine (AMCU) initiated an investigation considering alleged concerted actions between manufacturers, including Imperial Tobacco Ukraine (ITU), and the distributor TEDIS. On 10 October 2019, the AMCU announced its Decision to make a finding of anti-competitive conduct against the industry (Imperial, JTI, BAT, PM - both factories and trading companies - and the distributor TEDIS). ITU has been fined approximately £8.4 million and Imperial Tobacco Production Ukraine (ITPU) has been fined approximately £4.8 million, totalling £13.2 million. ITU and ITPU believe they have meritorious defence arguments and appealed the Decision and fines in December 2019. Procedural hearings have already taken place and pleading documents exchanged. This matter will progress when the restrictions placed in response to the COVID-19 health crisis are lifted. Payment of the fines is suspended pending resolution of the appeal. Therefore, provision for these amounts is not considered appropriate.

GERMANY

In late March 2020, a trademark infringement claim was filed against Reemtsma Cigarettenfabriken GmbH ("Reemtsma") in the Hamburg Court by an e-cigarette company. The claim relates to the DAVIDOFF EVOLVED product which was launched in Germany in March 2019. The claimant has requested that the court grant an injunction to prevent Reemtsma using "EVOLVED" and also determine that Reemtsma provide compensation regarding its use of EVOLVED. A first instance decision is not expected this year.

USA PLL – E-VAPOUR

A case has been filed in the USA with the California state court against Fontem U.S. (Fontem). The original complaint named 17 defendants in addition to Fontem. This case seeks the recovery of unquantified monetary damages, including punitive damages, against all defendants based on the claim that the principal plaintiff was injured as a result of the use of e-cigarettes and vaping devices, including e-cigarettes manufactured by Fontem. Fontem has successfully moved to dismiss three of the purported causes of action asserted against it. Fontem's answer to the remainder of the second amended complaint was filed in October 2019. At a case management conference in November 2019, the Court set a trial date of 1 February 2021.

16. BREXIT

Following the UK's exit from the European Union on 31 January 2020, the Group has looked at the potential impacts of the UK leaving the transition period on the 31 December 2020 without a substantive trade agreement in place. The key risks remain a potential increase in import duties and impact on UK customers; additional risk of tobacco smuggling, inventory requirements to ensure supply, impact on consumer confidence, and implications on existing international tax legislation. In the event that these are not addressed prior to 31 December 2020, we estimate there could be additional costs of around £100 million primarily relating to the restructuring of the Group for tax purposes.

17. POST BALANCE SHEET EVENTS

CORONAVIRUS PANDEMIC

In March 2020 the business was impacted by the global Coronavirus (Covid-19) pandemic, which resulted in unprecedented government restrictions on the normal operations of the business across many countries. The restrictions put in place initially resulted in a number of office and factory closures. Although the impact of these restrictions has continued in the period since the balance sheet date, the business has responded by adapting working practices through activities such as strengthening our IT infrastructure and accelerating the roll-out of software to facilitate remote team-working, as well as encouraged a more flexible approach. There have been modifications to working practices including changing shift patterns to ensure appropriate infection controls and social distancing for employees in manufacturing facilities. As a result of this manufacturing plants have continued to operate and the Group is able to both produce and distribute product to customers to meet demand, while complying with all necessary safety precautions to protect staff and business partners from the risks arising from the pandemic.

While the business has been able to adapt its working practices there have been certain limited impacts upon the business including a significant reduction in sales in the duty free (representing 2% of net revenue in 2019) and travel retail operations, although with some level of compensating sales pick-up in domestic demand, and with changes to consumption and buying patterns from consumers, retailers and wholesalers. For example, there is evidence of increased downtrading across certain markets, which we expect to continue and potentially deteriorate further, with recessionary pressures.

As manufacturing plants have continued to operate, following modifications to working practices, and because the Group carries 8-10 weeks of finished goods inventories, we do not expect to face restrictions in our ability to supply product to customers. The Group has also continued to operate a regime of strong cost control and cash discipline, recently has renewed a €3.5 billion Revolving Credit Facility and has bilateral bank facilities of €1.7 billion. The Group has undertaken extensive stress testing of our liquidity needs and financial resources against a range of different challenging scenarios.

The Group has undertaken a full review of the possible accounting implications arising from the current situation and has considered whether there is any need to adjust asset values or recognise additional liabilities. The Group has not identified any asset impairments specifically associated with the impact of the Covid-19 pandemic. To date, the observable impacts have been limited to low level changes in credit risk in the duty free and travel retail operations area.

Review of the key financial assumptions relating to the Group's defined benefit pension schemes subsequent to the balance sheet date indicates that fluctuations in obligations fall within the range of sensitivities. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.

SALE OF THE PREMIUM CIGAR DIVISION

On 27 April 2020 the Group announced that it had agreed the sale of the Premium Cigar Division for a consideration of €1,225 million. This business was classified as an asset held for sale at 31 March 2020. For more details please see note 10.

18. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. No related party transactions have taken place in the 6 months ended 31 March 2020 (6 months 2019: none) that have materially affected the financial position or performance of the group during that period.