

## TAKING ACTION TO STRENGTHEN PERFORMANCE

### Report for the year ended 30 September 2020

#### Business Highlights

- Business overcame the challenges posed by COVID-19; securing the safety and wellbeing of employees and responding to changes in consumer behaviour
- Tobacco volumes strong but sub-optimal product and market mix result in weak gross profit contribution
- A more disciplined approach in NGP reduced H2 losses after a disappointing H1
- Strengthened Executive Team with key external leadership appointments providing fresh skills and perspectives to complement existing experience
- Comprehensive strategic review underway with a capital markets update scheduled for 27 January
- Completed sale of Premium Cigars business on 29 October 2020; proceeds used to reduce debt

#### Financial Performance

- Group net revenue up +0.8%
- Tobacco volume decline of -2.1% reflecting better market size and share trends in several markets
- Tobacco net revenue +1.8% but weaker mix impacting gross profit contribution
- Moderation of NGP net revenue decline; H1: -43%, H2: -9% with FY down 27%
- Adjusted EPS down -5.6% reflecting reduced tobacco profit with COVID-19 and regulatory costs; and losses in NGP
- Reported EPS up 49.4% at 158.3p reflecting prior year impairment charge for Premium Cigar sale
- Strong cash conversion 127%; 107% excluding timing benefit on duty payments
- Annual dividend of 137.7 pence per share reflecting rebased payment announced in May

#### Financial Summary

Year ended 30 September 2020		Reported <sup>1</sup>			Adjusted <sup>1</sup>			Constant currency <sup>2</sup>
		2020	2019	Change	2020	2019	Actual	
Revenue/Net revenue	£m	<b>32,562</b>	31,594	+3.1%	<b>7,985</b>	7,991	-0.1%	+0.8%
Operating profit	£m	<b>2,731</b>	2,197	+24.3%	<b>3,527</b>	3,739	-5.7%	-4.8%
Earnings per share	pence	<b>158.3</b>	106.0	+49.4%	<b>254.4</b>	272.3	-6.6%	-5.6%
Net debt	£m	<b>(11,141)</b>	(11,970)		<b>(10,299)</b>	(11,376)		
Dividend per share	pence	<b>137.7</b>	206.6	-33.3%	<b>137.7</b>	206.6	-33.3%	-33.3%

See page 3 for basis of preparation and page 17 for the reconciliation between reported and adjusted measures.

<sup>1</sup> 2019 revenue, operating profit and earnings per share have been restated for change in Auxly treatment

<sup>2</sup> Constant currency removes effect of exchange rate movements on the translation of the results of our overseas operations.

#### Stefan Bomhard Chief Executive

"Although this has been a difficult year, the resilience of our tobacco business and the measures we have taken to improve our NGP operations reinforce my confidence in the future potential of the business. With a more disciplined focus and better execution we can realise significant value for our stakeholders over time.

"My first months have been focused on engaging with employees, consumers and customers and leading the strategic review of the business. What I have seen to date confirms my view of the Group's solid foundations. I believe there is scope to enhance returns from our tobacco business and opportunities to strengthen our NGP delivery over time. I firmly believe we can make a meaningful contribution to harm reduction within a more disciplined, returns-focused framework and we have already taken steps to stem the NGP losses.

"I look forward to providing further details of our renewed focus on value creation at a capital markets event in January and I would like to conclude by recognising the tremendous efforts of our employees in these unprecedented times. The commitment of our people across the business and their willingness to embrace change has been inspiring to see; my thanks to them all."

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## Results Overview

- Group net revenue growth supported by reduced tobacco volume declines, share gains and stronger H2 price mix
- Tobacco volumes were stronger principally in lower value markets and products impacting overall profit delivery
- Disappointing NGP performance although with significant reduction losses in H2
- Lower adjusted earnings driven by NGP write-downs and reduced tobacco profitability impacted by adverse mix, a cautious assessment of the ongoing impact from COVID-19 and increased regulation costs
- Strong underlying cash performance with some additional benefit from timing of excise payments
- Net debt reduction reinforced by post balance sheet completion of Premium Cigar disposal

### ***Volume and net revenue***

- Tobacco volumes down 2.1% with better market size trends in several markets; share growth of +50bps
- Market share gains driven primarily by lower value markets; we grew share in 3 of our top 5 markets
- Net revenue up +0.8% driven by tobacco growth of +1.8% offsetting a decline in NGP net revenue of 27.0%
- Tobacco price mix +3.9% reflecting gross pricing of 6.7% (e.g. US, Australia, Germany, UK) offset by adverse product mix of 1.9% (e.g. UK, Australia, Germany) and adverse market mix of 0.9% (e.g. Australia, Middle East, German private label)
- Improved second half price mix (H1: +1.4%, H2: +6.1%) driven by sustained pricing benefit and improved mix
- Moderation of NGP revenue decline (H1: -43%, H2: -9%) with sequential growth in H2 versus H1

### ***Profit***

- Adjusted operating profit down 4.8% with Europe down 5.9%; Americas down 3.4%; AAA down 8.7%
- Reported operating profit of £2,731 million increased 24.3% driven primarily by the prior year goodwill impairment charge for the Premium Cigar Division
- Tobacco profitability lower by 3.1% and NGP down 34.4%
- Tobacco performance impacted by weak additional gross profit contribution, additional COVID-19 related costs (£90m) including stock and debtor provisions and higher manufacturing costs; higher regulatory compliance costs (£50m) for EUTPD II implementation and payment of fines (which are being appealed) imposed by the competition authorities on the tobacco industry in the Netherlands and Ukraine and increased overheads (£26m)
- NGP adjusted operating loss of £323m (H1: £224m) includes £124m write-downs in inventory and IP with an additional £29m write-down in H2 (H1: £95m; H2: £29m)
- Reduction in H2 NGP operating loss reflects more disciplined, returns focused approach to investment and improved trading margins in key markets
- Adjusted EPS down 5.6% at constant currency reflecting decline in operating profit, lower income from joint ventures and an increase in the tax rate, partially offset by lower finance costs and the benefit of last year's share buyback
- Reported EPS up 49.4% at 158.3p reflecting prior year goodwill impairment charge for Premium Cigar sale

### ***Cash and debt***

- Strong underlying cash conversion of 107% driven by strong working capital improvements and lower capex; with an additional temporary benefit (+20%) from the timing of duty payments in Logista and UK bringing overall cash conversion to 127%
- Adjusted net debt reduced by £1.1bn reflecting strong cash flows and £1bn of working capital inflow, of which £0.7bn was related to temporary working capital benefits on duty and VAT payments; adjusted net debt to EBITDA was 2.7x (2019: 2.9x)
- Reported net debt declined by £0.8bn after including £0.3bn of lease liabilities due to the adoption of IFRS16, excluding the impact from IFRS16, reported net debt reduced by £1.1bn in line with adjusted net debt

### ***Capital allocation and dividend***

- Annual dividend of 137.7 pence per share (FY19: 206.6 pence)
- Dividend rebased by one third, following May announcement of revised dividend policy, which prioritises reduction of net debt to lower end of 2-2.5x target range
- Progressive dividend policy, taking into account underlying business performance
- Policy recognises the Group's continued strong cash generation and the importance of growing dividends for shareholders, while strengthening the business for the future

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## Outlook

Following a difficult 2020, we expect to deliver a stronger financial performance in 2021. Despite the ongoing uncertainties from the global pandemic, we currently expect to deliver low to mid-single digit growth in organic adjusted operating profit at constant currency, excluding the impact of the Premium Cigar sale.

Tobacco pricing is expected to remain strong although with some ongoing mix headwinds and with lower stock profits. The temporary COVID-19 benefit to duty paid market size is expected to unwind with sector volumes reverting to more normal decline rates. The duty free channel is likely to remain depressed for much of the year. Operating costs will continue to reflect somewhat higher regulatory costs and further manufacturing inefficiencies caused by COVID-19 related disruption to our working practices.

In NGP we have taken disciplined action to reduce operating losses in the second half of the year. We expect this moderated level of loss to continue in 2021.

A higher tax rate will have a c. 2% impact on earnings with constant currency earnings per share expected to be slightly ahead of the prior year.

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## 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.
- 2019 revenue, operating profit and earnings per share have been restated for change in Auxly treatment, which is now treated as an adjusting item.
- 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 Julieta and our cigarette brands, Bastos and Style as Portfolio Brands.
- 2019 volumes have been restated for some minor changes to reflect transfer of Canadian and Latin American volumes from Europe to the Americas division and French cigar volumes from Premium Cigar Division in AAA to Europe

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## OTHER INFORMATION

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### Analyst Presentation Webcast

Stefan Bomhard, Chief Executive, and Oliver Tant, Chief Financial Officer will present the results at 09:00 (GMT) on 17 November 2020. It will be followed by a live question and answer session. The presentation slides, script and recording will be available on [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com) from 9.00am (GMT).

You can join the webcast via <https://edge.media-server.com/mmc/p/x6n6pgce>. Please copy and paste the link into your browser.

Please either listen to the Q&A session via the webcast link: <https://edge.media-server.com/mmc/p/x6n6pgce> or to ask a question, please use the dial-in details below. Please dial-in 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.

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### 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.

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## CHIEF EXECUTIVE'S STATEMENT

I was delighted to be appointed Chief Executive Officer on 1 July. My first few months in the business have reinforced my belief that Imperial is a great consumer business and that over time, we can drive a stronger and more consistent performance.

Results in recent times have clearly been disappointing, despite the best efforts of employees. This has been another challenging year, with performance again falling short of original expectations, although there were some encouraging signs.

Consumer demand for tobacco has proved relatively resilient and we grew net revenue as the business adapted well to a rapidly changing environment. We also delivered tobacco market share gains for the Group overall, although much of the improvement was in lower value markets and products, leading to a weaker gross profit contribution. Profit delivery has also been affected by some additional COVID-related costs in manufacturing and as we increased provisions following a cautious assessment of further risks.

Our NGP results have been delivered in line with our revised expectations, with losses significantly reduced in the second half through a sharper focus on investment returns and cost cutting.

### Initial Priorities

I have focused on a number of priorities since joining Imperial. First, I have ensured that we have continued the great work the business has been doing to protect the health, safety and well-being of our people during the coronavirus. Imperial has shown resilience and the employees have done an exceptional job in keeping the business going. Many of our people have worked from home for prolonged periods of time and we've ensured they have received all the support they need to create the right working environment.

Most of our factories stayed open and operational, which is another tremendous achievement, although the layout of the facilities and shift patterns changed to enable us to adhere to local government health and safety guidelines. Also, I'm pleased to say that we didn't furlough any employees, implement any pay cuts or make any redundancies as a result of COVID-19.

My second priority was to start to address the strategy and performance issues. As I've said, despite best efforts, the strategy and business model are clearly not delivering what our stakeholders expect and we need to tackle this. I have started by instilling greater discipline in the way the business operates, stemming the losses in NGP and embedding a more rigorous approach to tracking performance. The work we are doing on reviewing the strategy and business model is progressing well and I expect to be able to share the results in January 2021.

Stakeholder engagement was a priority, especially with our people. In my first 100 days I hosted 300 internal meetings, connecting with thousands of employees around the world. This has enabled me to get authentic insights into the issues we need to work together on to address.

I have listened to the views of consumers and customers, and also spoken with some of our largest shareholders. Opportunities for actual market visits have been limited due to COVID-19 but I have managed to meet customers and consumers on the ground, which again has helped build my knowledge and understanding of Imperial and the industry.

Finally, I have expanded the Executive Committee with a number of external appointments who are all also new to tobacco and NGP. This is important because we need new skills and fresh thinking for a changing industry. We have tremendous tobacco expertise in the management team and we're now adding to that by bringing in additional skills and capabilities, which is proving really valuable in terms of shaping the new strategy.

### Assessing the business

My assessment of Imperial is that it is a company with great potential. The tobacco business is resilient and has some good brands, so there is definitely the opportunity to deliver better results over time. This will require addressing our share performance in certain markets where we've suffered declines for a number of years, although we have started to see some improvements in recent months.

NGP has obviously underperformed and investment has not delivered the expected returns. NGP has a role to play for Imperial going forward in meeting consumer needs for reduced risk products. I also want us to be able to make a meaningful contribution to harm reduction, but we will take a much more prudent approach, built around a tightly focused business model.

Although there is a lot we need to change, there are also areas of real excellence in the business that we must make sure we preserve. Our manufacturing and supply chain operations, for example, are truly competitive within our industry, and we have experienced relatively limited disruption across our factory footprint during the coronavirus.

Our approach to customer engagement is also impressive. We have strong retail partnerships, which is critical given the role retailers can play in influencing consumer brand and product choices.

Finally, there's our people. I have been truly excited to see their energy, passion and overall willingness to embrace change. I appreciate all their support so far and the honesty they have shown. I feel confident that by working together we will deliver stronger and more consistent results over time.

### **Environmental, social and governance responsibilities**

The way we manage our ESG responsibilities is crucial. I believe we have a compelling and credible sustainability strategy, with clearly defined ESG priorities. This is important, given the controversial nature of our products and the level of stakeholder scrutiny we quite rightly receive.

We need to do better in NGP to be able to deliver against our consumer health and harm reduction ambitions but if I look at the progress we're making in other areas, there's much to be pleased with.

On climate and energy, for instance, we have stretching long-term goals, with our carbon reduction targets validated and approved by the Science Based Targets initiative. We have also been awarded an A rating by CDP for our commitment to addressing climate change and supplier engagement.

One area that has required attention is transparency around the way we measure performance. For some ESG issues, we have robust key performance indicators (KPIs) that we publicly report against, for others we have none. That will be changing this fiscal year. The ESG Steering Committee has been working with the business to identify and agree appropriate KPIs for all our main ESG issues. That work is complete and once these additional KPIs have been validated against the new strategy we will make them publicly available.

### **Looking to the future**

Imperial has many attractive qualities, including its people, brands and market positions. These are the foundations of a successful business and I believe that over time, we can leverage these assets to drive profitable growth.

We are very focused on making the right strategic choices to strengthen results and the work we are doing on reviewing our strategy, business model and culture is progressing well.

It takes time to change a large organisation but I am excited about the future and convinced that with a clearer focus and better execution, we will deliver a new era of success that will create long-term value for stakeholders.

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## OPERATING REVIEW

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

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

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

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

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

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

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

### Performance review

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

### Tobacco & NGP

#### Tobacco

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

#### JPS

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

#### West

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

### **Winston**

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

### **Davidoff**

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

### **Parker & Simpson**

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

### **Next Generation Products (NGP)**

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

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

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

### **Vapour**

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

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

### **Heated Tobacco**

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



### Modern Oral Nicotine

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

### Distribution

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

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

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

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

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

## Europe

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

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

### Positives

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

### Negatives

- Despite strong financial performance, we lost market share in the UK and Germany
- Price/mix has been affected by adverse product mix with increased demand for value formats
- Travel bans reduced sales in global duty free and traditional summer holiday destinations
- Profit reduced by provisions for COVID-19 related risks and manufacturing and regulatory costs

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

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

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

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

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

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

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

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

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

## Americas

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

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

### Positives

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

### Negatives

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

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

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

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

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

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

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

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

## Africa, Asia and Australasia

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

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

### Positives

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

### Negatives

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

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

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

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

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

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

### Priority Markets Performance

#### Tobacco Share

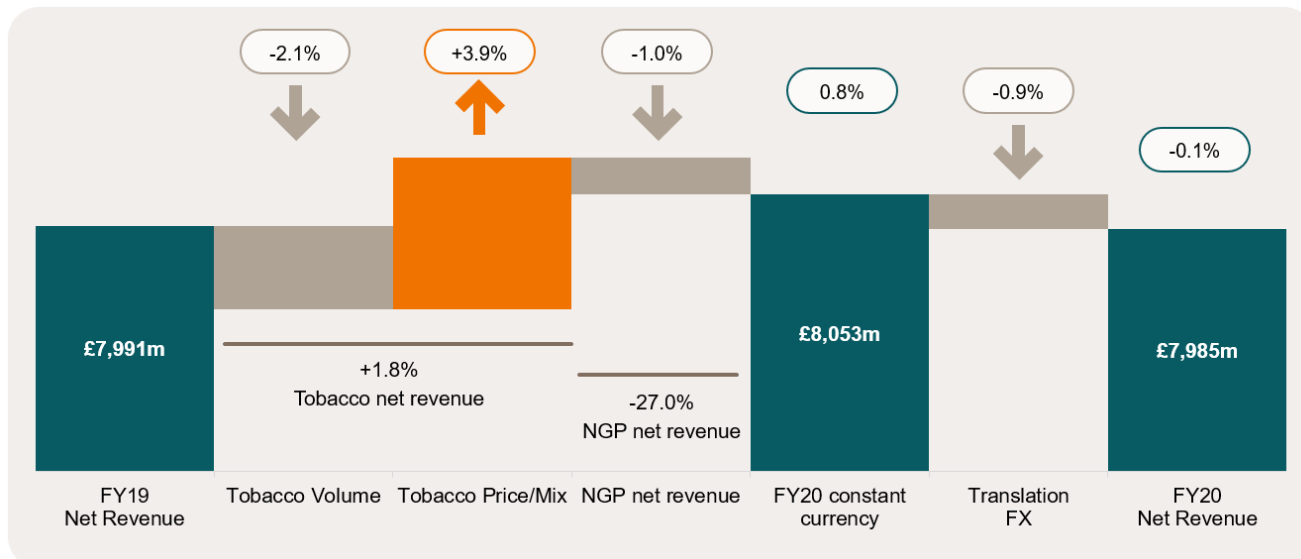
Australia +20 bps (32.7%)  5% of Group net revenue	Industry volumes declined by 8.6 per cent with increased illicit trade. Parker & Simpson continues to gain share in the growing 'fifth price tier'. Price increases and the sell-through of duty paid inventory accumulated last year benefited revenue and profit, more than offsetting the negative product mix impact from the growth in the discount segment.
Russia +50 bps (8.4%)  2% of Group net revenue	Financial performance benefited from improved market pricing and a reduction in discounting in the key account channel. Market share gains benefited from the launch of new crushball variants of Davidoff and Parker & Simpson meeting consumer demand for modern formats.

<p>Japan +10 bps (1.3%)  <i>1% of Group net revenue</i></p>	<p>Following excise related price increases, West continues to benefit from demand for the value segment. Net revenue from vapour was impacted by a reduction in trade inventories, although myblu continues to retain market leadership of the relatively small vapour category. Distribution of Pulze was extended through national key accounts, although any further roll-out was paused.</p>
<p>Saudi Arabia +450 bps (18.8%)  <i>1% of Group net revenue</i></p>	<p>Sales of Davidoff and West supported market share growth, driven by better field coverage and on-shelf availability following the introduction of plain packaging in November 2019. COVID-19 related border closures led to an increase in domestic duty paid market size, which improved our financial delivery.</p>

## FINANCE REVIEW

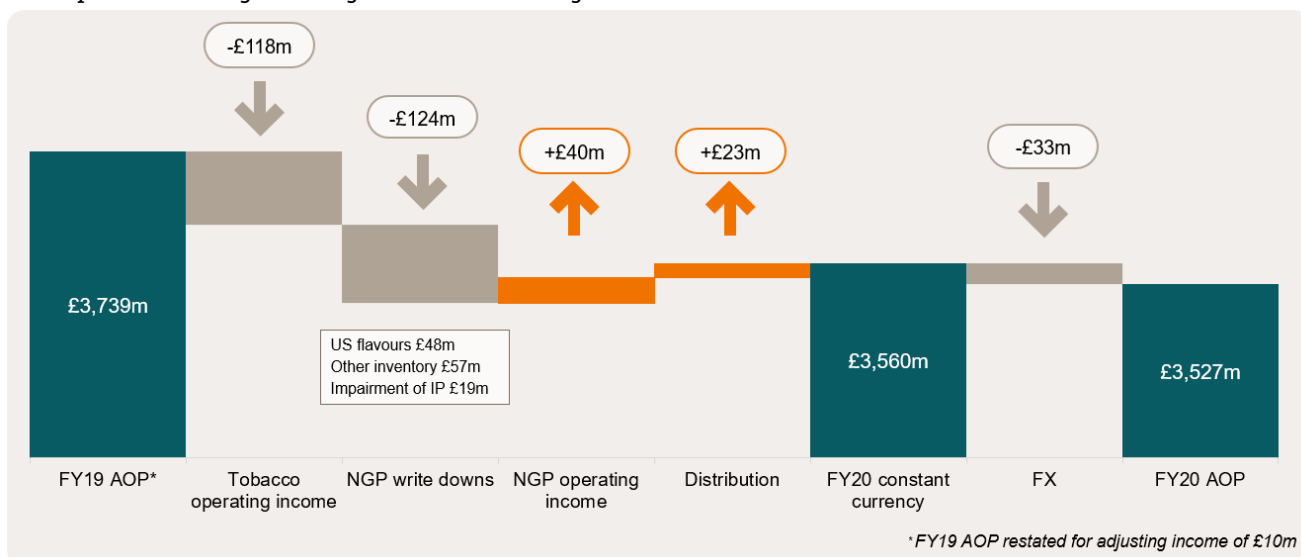
### Net revenue affected by adverse tobacco product and market mix and lower NGP sales

- Net revenue up 0.8% at constant currency comprising 1.8% from tobacco and -1.0% from NGP
- Relatively strong tobacco volume performance (-2.1%) driven by better market size trends in several markets, volume growth in AAA division and overall share gains of +50 basis points
- Price mix of 3.9% reflects tobacco pricing of 6.7% (e.g. US, Australia, Germany, UK), partly offset by adverse product mix of -1.9% (e.g. UK, Australia, Germany) and market mix of -0.9% (e.g. Middle East, Australia, German private label)
- NGP revenue declined 27.0% at constant currency reflecting the destocking of trade inventories and reduced investment



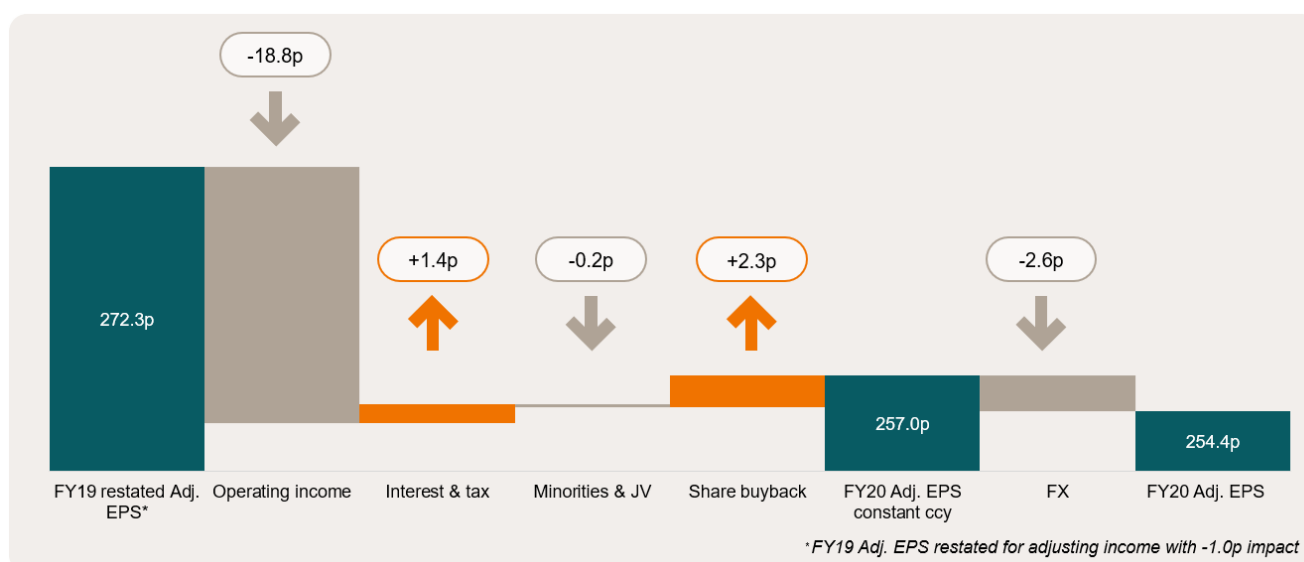
### Adjusted operating profit down 4.8% at constant currency

- Adjusted operating profit down 5.7% at actual rates
- Tobacco adjusted operating income down £118m (-3.1%) at constant currency driven by:
  - adverse price/mix leading to a weaker operating profit contribution of +£48m;
  - COVID-19 related costs of £90m, including increased manufacturing costs and higher stock and debtor provisions reflecting a cautious assessment of ongoing COVID-19 uncertainties;
  - increased regulatory costs of £50m for EUTPD II implementation and payment of fines (which are being appealed) imposed by the competition authorities on the tobacco industry in the Netherlands and Ukraine; and
  - higher overheads of £26m, mainly relating to increased tobacco sales force investment in the USA
- NGP profitability impacted by £124m of non-recurring write-downs and lower sales; significant reduction in H2 losses as investment and costs were reduced
- Distribution adjusted operating profit increased, reflecting lower eliminations following NGP destock this year
- Reported operating profit of £2,731 million increased 24.3% driven primarily by the prior year goodwill impairment charge relating to the Premium Cigar Division divestment



### Adjusted earnings per share of 257.0p down 5.6% at constant currency

- FY19 adjusted EPS of 273.3p is restated to exclude net 'other income' of £10 million from the FY19 Auxly revaluation resulting in adjusted EPS of 272.3p
- Lower operating income contributed a 18.8p decline in EPS, with a 1.4p saving from lower interest costs
- The share buyback benefited adjusted EPS by 2.3p
- Reported EPS increased 49.4% to 158.3p driven primarily by the prior year goodwill impairment charge relating to the Premium Cigar Division divestment



### Group Results – Constant Currency Analysis

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



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

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

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

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

### Group Earnings Performance

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

### 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	<b>2,731</b>	2,197	<b>(610)</b>	(562)	<b>158.3</b>	106.0
Acquisition and disposal costs	<b>26</b>	22	-	-	<b>2.8</b>	2.3
Amortisation & impairment of acquired intangibles	<b>523</b>	1,118	-	-	<b>49.2</b>	116.4
Excise tax provision	<b>(20)</b>	139	-	-	<b>(1.7)</b>	13.0
Fair value of loan receivable	<b>62</b>	(3)	-	-	<b>6.6</b>	(0.3)
Sale of intellectual property	-	(7)	-	-	-	(0.7)
Fair value adjustment of acquisition consideration	-	129	-	-	-	13.5
Fair value and exchange movements on derivative financial instruments	-	-	<b>176</b>	107	<b>25.3</b>	8.0
Post-employment benefits net financing costs	-	-	<b>5</b>	5	<b>0.4</b>	0.1
Restructuring costs	<b>205</b>	144	-	-	<b>18.4</b>	11.4
Tax on disposal of Premium Cigar business	-	-	-	-	<b>2.0</b>	-
Previously unrecognised tax credits	-	-	-	-	<b>(7.1)</b>	-
Uncertain tax positions	-	-	-	-	<b>8.2</b>	-
-	-	-	-	-	<b>(4.3)</b>	6.4
Items above attributable to non-controlling interest	-	-	-	-	<b>(3.7)</b>	(3.8)
Adjusted	<b>3,527</b>	3,739	<b>(429)</b>	(450)	<b>254.4</b>	272.3

## Performance Overview

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

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

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

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

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

## Active Capital Discipline

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

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

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

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

## Cash Flow and Net Debt

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

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

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

After including £0.3 billion of lease liabilities on the adoption of IFRS16, reported net debt decreased by £0.8 billion to £11.1 billion and adjusted net debt decreased by £1.1 billion to £10.3 billion at actual rates.

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

As at 30 September 2020, the Group had committed financing in place of around £16.2 billion, which comprised 29 per cent bank facilities and 71 per cent raised from capital markets. During the year a new revolving credit facility of €3.5

billion replaced the existing revolving facilities of £3 billion equivalent and bilateral facilities totalling €1.7 billion were arranged whilst one bilateral facility of €300 million was cancelled.

### **Tobacco Revenue Improves, NGP Disappoints**

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

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

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

As a result of COVID-19 and its disruption to our ability to operate as planned in certain locations, we experienced some manufacturing inefficiencies. In addition, we have seen a number of changes in the risks to working capital balances, particularly in stock and debtors reflecting changes in customer and consumer behaviours and we have made some additional provisions to protect against these increased risks. The impact of these COVID-19 related additional costs amount to £90 million. We have also seen an increase in costs associated with the implementation of EUTPD Track & Trace, payment of fines (which are being appealed) imposed by the competition authorities on the tobacco industry in the Netherlands and Ukraine, and a tax liability in Spain, which together contributed an additional £50 million of cost this year. We do not expect the majority of these costs to reoccur.

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

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

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

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

The restructuring charge for the year of £205 million (2019: £144 million) relates mainly to our 2nd cost optimisation program announced in 2016. The total restructuring cash flow in the year ended 30 September 2020 was £145 million (2019: £146 million).

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

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

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

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

The effective tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets such as the USA and lower rates in other markets such as the UK. The rate is also sensitive to future legislative changes affecting international businesses such as changes arising from the OECD's (Organisation for

Economic Co-operation and Development) Base Erosion Profit Shifting (BEPS) work. Whilst we seek to mitigate the impact of these changes, we anticipate there will be further upward pressure on the adjusted and reported tax rate in the medium term. Our UK Tax Strategy is publicly available and can be found in the governance section of our corporate website.

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

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

### **Cost Optimisation**

We optimise our cost base to realise operational efficiencies. Our first optimisation programme announced in January 2013 delivered savings of £305 million per annum from September 2018 at a cash restructuring cost of around £600 million. This first programme has now concluded although there remain some cash costs. The second cost programme, announced in November 2016, is now expected to deliver c. £320 million of annual savings with £303 million of annual savings still expected from September 2020 and a further c. £16 million of savings from September 2021 as some of the original programme will now be initiated in 2021 due to the impact of the COVID-19 pandemic. The programme is expected to be completed at a cash restructuring cost of c. £650 million, a £100 million reduction against our original estimates.

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

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

### **Capital Allocation**

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

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

We typically seek an overall internal rate of return in excess of 13 per cent across the investments we make in order to support our investment choices and underpin returns for shareholders. Despite the drag from NGP, our in year ROIC measure is slightly ahead of this internal rate of return at 13.2 per cent but lower than last year (2019: 14.4 per cent) due to the profit reduction.

### **Dividend Payments**

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

The Board approved a further interim dividend of 48.00 pence per share and will propose a final dividend of 48.01 pence per share, bringing the total dividend for the year to 137.71 pence per share. The third interim dividend will be paid on 31 December 2020 with an ex-dividend date of 26 November 2020. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2021, with an ex-dividend date of 20 February 2021.

### **Brexit**

The Group has assessed the potential impacts of the UK not concluding a trade deal with the EU prior to 1 January 2021. The key risks identified include: the potential increase in import duties and impact on UK customers; additional risk of tobacco smuggling; inventory requirements to ensure supply; impact on consumer confidence; and implications on existing international tax arrangements. In the event of a no trade deal, we estimate there could be additional costs of around £75 million relating principally to import duties and the impact on existing tax arrangements.

### **New Accounting Standards**

We adopted the new accounting standard IFRS 16 "Leases" on 1 October 2019. Implementation of IFRS 16 has resulted in the recognition of 'right of use assets' which are depreciated over the period that they are leased and a corresponding interest bearing lease liabilities creditor, which are paid down over the life of each lease. The impact associated with the adoption of this standard is disclosed in Note 1 of the Accounting Policies.

### Adjusted Performance Measures

In managing the business, we focus on adjusted performance measures as we believe they provide a better comparison of performance from one period to the next. As announced last year, we refined our approach to the use of adjusted performance measures by focusing more on the performance drivers of our core activities of the manufacture, sales and marketing of tobacco and NGP products.

The changes we have made to our adjusted performance measures include the exclusion of one-off gains and losses from asset disposals and other non-recurring activities that do not relate directly to the core activities. In 2020 valuation losses related to our investment in Auxly of £62 million were excluded from adjusted profit as a result of this change. Income from the sale of intellectual property and a valuation gain of £10 million on Auxly were included in adjusted profit in 2019 and as a consequence of this the 2019 results have been restated to provide more understandable like for like comparisons.

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

Last year we said that we would undertake a review of the treatment of restructuring costs as an adjusting item, considering whether or not the exclusion of these costs from adjusted profit was appropriate. In the light of certain COVID-19 related delays to the conclusion of the second cost optimisation programme, that was previously due to end in the 2020 this review has been deferred into the next year.

### Liquidity and Going Concern

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

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

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

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

The scenario testing also considered mitigating actions including reductions to capital expenditure and dividend payments. There are additional actions that were not modelled but could be taken including other cost mitigations such as staff redundancies, retrenchment of leases, and discussions with lenders about capital structure.

Under a worst-case scenario, where the largest envisaged downside scenarios all take place at the same time and taking full use of the capital expenditure and dividend payment reduction mitigating actions as described above, the Group would have sufficient headroom until March 2022. The Group believes this worst-case scenario to be highly unlikely.

Based on the review of future cashflows covering the period through to March 2022, and having assessed the principal risks facing the Group, including the current and forecast future impacts of the COVID-19 pandemic, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet operational needs from the date of this Report through to March 2022 and concludes that it is appropriate to prepare the financial statements on a going concern basis.

**Oliver Tant**  
Chief Financial Officer

## SUMMARY OF KEY FOOTPRINT FINANCIALS & METRICS

FOOTPRINT		Full Year Result		Change	
		2020	2019	Actual	Constant Currency
<b>Volume</b>					
Europe	bn SE	130.1	134.9	-3.5%	
Americas	bn SE	21.3	22.0	-3.3%	
Africa, Asia and Australasia	bn SE	87.7	87.3	+0.4%	
Total Group	bn SE	239.1	244.2	-2.1%	
<b>Tobacco Net Revenue</b>					
Europe	£m	3,471	3,505	-1.0%	-0.0%
Americas	£m	2,409	2,361	+2.0%	+1.9%
Africa, Asia and Australasia	£m	1,904	1,847	+3.1%	+5.0%
Total Group	£m	7,784	7,713	+0.9%	+1.8%
<b>Tobacco Net Revenue per '000 SE</b>					
Europe	£	26.68	25.98	+2.7%	+3.6%
Americas	£	113.23	107.32	+5.5%	+5.4%
Africa, Asia and Australasia	£	21.71	21.15	+2.7%	+4.6%
Total Group	£	32.56	31.58	+3.1%	+4.0%
<b>Tobacco Price/Mix</b>					
Europe	%			+2.5%	+3.5%
Americas	%			+5.3%	+5.2%
Africa, Asia and Australasia	%			+2.7%	+4.6%
Total Group	%			+3.0%	+3.9%
<b>NGP Net Revenue</b>					
Europe	£m	98	128	-23.4%	-21.9%
Americas	£m	71	108	-34.3%	-34.3%
Africa, Asia and Australasia	£m	32	42	-23.8%	-23.8%
Total Group	£m	201	278	-27.7%	-27.0%
<b>Adjusted Tobacco &amp; NGP Operating Profit</b>					
Europe	£m	1,582	1,694	-6.6%	-5.9%
Americas	£m	1,032	1,064	-3.0%	-3.4%
Africa, Asia and Australasia	£m	674	763	-11.7%	-8.7%
Total Group	£m	3,288	3,521	-6.6%	-5.7%
<b>Distribution</b>					
Distribution Fees	£m	1,015	1,015	0.0%	+0.7%
Operating Profit	£m	226	232	-2.6%	-1.9%
Operating Margin	%	22.7	22.9	-20 bps	-20 bps

2019 restated to reflect segmental volume movements of Canada and Latin America volumes to Americas from Europe (0.3bn SE) and the inclusion of France cigar sales from AAA division into Europe (0.1bn SE); Auxly other income adjustments of £(3)m net revenue and £(5)m operating profit to Europe, . £(3)m net revenue and £(4)m operating profit to Americas and £(1)m net revenue and £(1)m operating profit to AAA.

## SUMMARY OF KEY PORTFOLIO FINANCIALS & METRICS

PORTFOLIO		Full Year Result		Change	
		2020	2019	Actual	Constant Currency
<b>Asset Brand Net Revenue</b>					
Europe	£m	<b>2,682</b>	2,705	-0.8%	+0.2%
Americas	£m	<b>1,331</b>	1,338	-0.6%	-0.7%
Africa, Asia and Australasia	£m	<b>1,160</b>	1,112	+4.4%	+6.0%
Total Group	£m	<b>5,175</b>	5,168	+0.1%	+1.0%
<b>Asset Brands as % of Net Revenue</b>					
Europe	%	<b>75.2</b>	74.4	+80 bps	+80 bps
Americas	%	<b>53.7</b>	54.2	-50 bps	-60 bps
Africa, Asia and Australasia	%	<b>59.9</b>	58.9	+100 bps	+90 bps
Total Group	%	<b>64.8</b>	64.7	+10 bps	+10 bps
<b>Portfolio Brands Net Revenue</b>					
Total Group	£m	<b>2,810</b>	2,823	-0.5%	+0.4%
% of Total Net Revenue	%	<b>35.2</b>	35.3	-10 bps	-10 bps

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

## FINANCIAL STATEMENTS

The figures and financial information for year ended 30 September 2020 do not constitute the statutory financial statements for that year. Those financial statements have not yet been delivered to the Registrar.

The auditors have reported on those accounts and their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the accounts. The financial statements have been prepared in accordance with our accounting policies published in our financial statements available on our website [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com).

### Consolidated Income Statement for the year ended 30 September

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



**Consolidated Statement of Comprehensive Income**  
for the year ended 30 September

£ million		2020	2019
<b>Profit for the year</b>		<b>1,558</b>	1,081
<b>Other comprehensive income</b>			
Exchange movements		151	270
Current tax on hedge of net investments		(10)	-
Deferred tax on hedge of net investments		(80)	-
Items that may be reclassified to profit and loss		61	270
Net actuarial gains/(losses) on retirement benefits	15	277	(248)
Deferred tax relating to net actuarial (losses)/gains on retirement benefits	15	(53)	52
Items that will not be reclassified to profit and loss		224	(196)
<b>Other comprehensive income for the year, net of tax</b>		<b>285</b>	74
<b>Total comprehensive income for the year</b>		<b>1,843</b>	1,155
Attributable to:			
Owners of the parent		1,762	1,086
Non-controlling interests		81	69
<b>Total comprehensive income for the year</b>		<b>1,843</b>	1,155

**Consolidated Balance Sheet**  
at 30 September

£ million	Notes	2020	Reclassified 2019
<b>Non-current assets</b>			
Intangible assets		18,160	18,596
Property, plant and equipment		1,899	1,979
Right of use assets		293	-
Investments accounted for using the equity method		117	81
Retirement benefit assets	15	940	595
Trade and other receivables	13	57	119
Derivative financial instruments	11	813	677
Deferred tax assets	7	381	370
		<b>22,660</b>	<b>22,417</b>
<b>Current assets</b>			
Inventories		4,065	4,082
Trade and other receivables	13	2,638	2,854
Current tax assets	6	206	195
Cash and cash equivalents		1,626	2,286
Derivative financial instruments	11	53	137
Current assets held for disposal	12	1,062	1,103
		<b>9,650</b>	<b>10,657</b>
<b>Total assets</b>		<b>32,310</b>	<b>33,074</b>
<b>Current liabilities</b>			
Borrowings		(1,442)	(1,937)
Derivative financial instruments	11	(41)	(28)
Lease liabilities		(64)	-
Trade and other payables	14	(10,170)	(9,352)
Current tax liabilities	6	(350)	(313)
Provisions	4	(220)	(284)
Current liabilities held for disposal	12	(38)	(37)
		<b>(12,325)</b>	<b>(11,951)</b>
<b>Non-current liabilities</b>			
Borrowings		(10,210)	(11,697)
Derivative financial instruments	11	(1,641)	(1,408)
Lease liabilities		(235)	-
Trade and other payables	14	(5)	(7)
Deferred tax liabilities	6	(924)	(931)
Retirement benefit liabilities	15	(1,256)	(1,249)
Provisions	4	(196)	(247)
		<b>(14,467)</b>	<b>(15,539)</b>
<b>Total liabilities</b>		<b>(26,792)</b>	<b>(27,490)</b>
<b>Net assets</b>		<b>5,518</b>	<b>5,584</b>
<b>Equity</b>			
Share capital		103	103
Share premium and capital redemption		5,837	5,837
Retained earnings		(2,364)	(2,255)
Exchange translation reserve		1,295	1,252
<b>Equity attributable to owners of the parent</b>		<b>4,871</b>	<b>4,937</b>
Non-controlling interests		647	647
<b>Total equity</b>		<b>5,518</b>	<b>5,584</b>

**Consolidated Statement of Changes in Equity**  
for the year ended 30 September

£ million	Share capital	Share premium and capital redemption	Retained earnings	Exchange translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
<b>At 30 September 2019</b>	<b>103</b>	<b>5,837</b>	<b>(2,255)</b>	<b>1,252</b>	<b>4,937</b>	<b>647</b>	<b>5,584</b>
Profit for the year	-	-	1,495	-	1,495	63	1,558
Exchange movements on overseas net assets	-	-	-	(130)	(130)	18	(112)
Exchange movements on net investment hedges	-	-	-	12	12	-	12
Exchange movements on quasi-equity loans	-	-	-	251	251	-	251
Current tax on quasi-equity loans	-	-	-	(10)	(10)	-	(10)
Deferred tax on quasi-equity loans	-	-	-	(80)	(80)	-	(80)
Net actuarial gains on retirement benefits	-	-	277	-	277	-	277
Deferred tax relating to net actuarial losses on retirement benefits	-	-	(53)	-	(53)	-	(53)
Other comprehensive income	-	-	224	43	267	18	285
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>1,719</b>	<b>43</b>	<b>1,762</b>	<b>81</b>	<b>1,843</b>
<b>Transactions with owners</b>							
Costs of employees' services compensated by share schemes	-	-	20	-	20	-	20
Current tax on share-based payments	-	-	1	-	1	-	1
Cancellation of share capital	-	-	(92)	-	(92)	-	(92)
Change in non-controlling interests	-	-	(4)	-	(4)	4	-
Dividends paid	-	-	(1,753)	-	(1,753)	(85)	(1,838)
<b>At 30 September 2020</b>	<b>103</b>	<b>5,837</b>	<b>(2,364)</b>	<b>1,295</b>	<b>4,871</b>	<b>647</b>	<b>5,518</b>
<b>At 1 October 2018</b>	<b>103</b>	<b>5,837</b>	<b>(1,155)</b>	<b>980</b>	<b>5,765</b>	<b>675</b>	<b>6,440</b>
Profit for the year	-	-	1,010	-	1,010	71	1,081
Exchange movements on overseas net assets	-	-	-	232	232	(2)	230
Exchange movements on net investment hedges	-	-	-	(228)	(228)	-	(228)
Exchange movements on quasi-equity loans	-	-	-	268	268	-	268
Net actuarial losses on retirement benefits	-	-	(248)	-	(248)	-	(248)
Deferred tax relating to net actuarial losses on retirement benefits	-	-	52	-	52	-	52
Other comprehensive income	-	-	(196)	272	76	(2)	74
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>814</b>	<b>272</b>	<b>1,086</b>	<b>69</b>	<b>1,115</b>
<b>Transactions with owners</b>							
Cash from employees on maturity/exercise of share schemes	-	-	1	-	1	-	1
Costs of employees' services compensated by share schemes	-	-	23	-	23	-	23
Current tax on share-based payments	-	-	1	-	1	-	1
Repurchase of shares	-	-	(108)	-	(108)	-	(108)
Change in non-controlling interests	-	-	13	-	13	(13)	-
Dividends paid	-	-	(1,844)	-	(1,844)	(84)	(1,928)
<b>At 30 September 2019</b>	<b>103</b>	<b>5,837</b>	<b>(2,255)</b>	<b>1,252</b>	<b>4,937</b>	<b>647</b>	<b>5,584</b>

**Consolidated Cash Flow Statement**  
for the year ended 30 September

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

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## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting Policies

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

- i. Taxes – See Notes 6 and 7 for details;
- ii. Pensions – See Note 15 for details; and
- iii. Assets Held for Sale - Due to better information regarding the structure of the sale of the Premium Cigar business being available, intercompany debt has been netted off in the normal way on consolidation, which has required a restatement of 2019 where the grossing up of intercompany balances in trade receivables and payables with an offsetting entry in Assets Held for Sales was disclosed.

These changes had no impact on previously reported financial performance.

### Use of adjusted measures

#### Intangible Assets

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

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

#### Presentation of Auxly

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

### New Accounting Standards and Interpretations

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

#### IFRS 16 'Leases'

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

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

#### Impact of IFRS 16 'Leases'

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

£ million	As reported At 30 September 2019	IFRS 16 adjustment	On adoption At 1 October 2019
<b>Right of use assets</b>	-	327	327
Current assets			
Trade and other receivables	2,993	(1)	2,992
<b>Current Liabilities</b>			
Borrowings	(1,937)	(65)	(2,002)
<b>Non-current Liabilities</b>			
Borrowings	(11,697)	(261)	(11,958)
Other net assets	16,225	-	16,225
<b>Net assets</b>	5,584	-	5,584

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

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

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

### Right of Use Assets

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

### Lease Liabilities

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

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

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

### Short Term Leases, Leases of Low Value Assets and Practical Expedients Applied

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

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

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

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

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

Reconciliation between Minimum Lease commitments as at 30 September 2019:

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

### IFRIC 23 Uncertainty over Income Tax Treatments

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

### New Accounting Standards and Interpretations not yet in issue

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

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

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

## 2. Critical Accounting Estimates and Judgements

The Group makes estimates and judgements associated with accounting entries which will be affected by future events. Estimates and judgements are continually evaluated based on historical experience, and other factors, including current information that helps form a forward-looking view of expected future outcomes.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability. The actual amounts recognised in the future may deviate from these estimates and judgements. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the financial statements for the year ended 30 September 2020, which will be available on our website [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com) in due course.

## 3. Segment Information

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

the Tobacco & NGP and Distribution businesses are undertaken on an arm's length basis reflecting market prices for comparable goods and services.

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

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

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

Americas – United States and Canada.

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

### Tobacco & NGP

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

### Distribution

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

### Revenue

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

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

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



## Tobacco & NGP net revenue

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

## Adjusted operating profit and reconciliation to profit before tax

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

See note 6 for details of the Excise tax provision and note 5 for the fair value adjustment of acquisition consideration. See note 12 for details of acquisition and disposal costs, and note 4 for details of restructuring costs.

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

## 4. Restructuring Costs and Provisions

### Restructuring costs

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

Restructuring costs analysed by workstream:

£ million	2020	2019
Cost optimisation programme	187	144
Acquisition integration costs	18	-
	205	144

The cost optimisation programme (Phase I announced in 2013 and Phase II announced in November 2016) is part of the Group's change in the current strategic direction to achieve a unique, non-recurring and fundamental transformation of the business. The

costs of factory closures and implementation of a standardised operating model are considered to be one off as they are a permanent scaling down of capacity and a once in a generation transformational change respectively. The Cost optimisation programme is due to complete in 2021.

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

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

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

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

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

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

These projects differ from everyday initiatives that are undertaken to improve the efficiency and effectiveness of the ongoing operations business. These costs are required in order to address structural issues involved 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 2021.

### Provisions

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

Analysed as:

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

Restructuring provisions relate mainly to our cost optimisation programme (see note 4). The restructuring provision is split between Cost Optimisation Programme 2 of £157 million, Cost Optimisation Programme 1 of £79 million and other restructuring programmes of £17 million. Within the Cost Optimisation Programme provisions there is £124 million related to costs of consolidating the manufacturing capacity within the Group and £26 million relating to site specific factory closures. It is expected that the restructuring provisions will be predominantly utilised over the next 2 years.

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

## 5. Alternative Performance Measures

### Reconciliation from Operating Profit to Adjusted Operating Profit

£ million	Notes	2020	Restated 2019
<b>Operating profit</b>		<b>2,731</b>	2,197
Acquisition and disposal costs	12	26	22
Amortisation and impairment of acquired intangibles		523	1,118
Excise tax provision		(20)	139
Fair value adjustment of loan receivable		62	(3)
Sale of intellectual property income		-	(7)
Fair value adjustment of acquisition consideration		-	129
Restructuring costs	4	205	144
<b>Adjusted operating profit</b>		<b>3,527</b>	3,739

Acquisition and disposal costs and restructuring costs are discussed in further detail in the above referenced notes.

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

### Reconciliation from Net Finance Costs to Adjusted Net Finance Costs

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

### Cash Conversion Calculation

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

## 6. Tax and Reconciliation to Adjusted Tax Charge

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

### Analysis of charge in the year

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

£ million	2020	2019
Tax related to items recognised Consolidated Other Comprehensive Income OCI during the year:		
Current tax on hedge of net investment	(10)	-
Deferred tax on hedge of net investment	(80)	-
Deferred tax on actuarial gains and losses	53	(52)
<b>Total tax charged to consolidated other comprehensive income</b>	<b>(37)</b>	<b>(52)</b>

### Reconciliation from reported tax to adjusted tax

The table below shows the taxation impact of the adjustments made to reported profit before tax in order to arrive at the adjusted measure of earnings disclosed in note 9.

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

## Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate of 19.0 per cent (2019: 19.0 per cent) as follows:

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

Differences in effective tax rates on overseas earnings represents the impact of worldwide profits being taxed at rates different from 19.0 per cent. The effective tax rate benefits from internal financing arrangements between group subsidiaries in different countries which are subject to differing tax rates and legislation and the application of double taxation treaties.

Remeasurement of deferred tax assets includes £18 million recognition (2019: £35 million de-recognition) in relation to deferred tax assets for tax losses in the Group's Dutch business, £15 million recognition (2019:nil) in relation to deferred tax assets for tax credits and losses in the Group's Spanish business and £45 million recognition (2019: nil) in relation to deferred tax assets for tax losses in the Group's US business. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation and the interpretation thereof and changes in the group structure.

The remeasurement of deferred tax balances arising from changes in tax rates for the year is £9 million (2019: nil).

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

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

### Movement on current tax account

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

The cash tax paid in the year is £25 million lower than the current tax charge (2019: £1 million higher). This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

Analysis of current tax account £ million	2020	Reclassified 2019
Current tax assets	206	195
Current tax liabilities	(350)	(313)
	(144)	(118)

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

## Uncertain tax positions

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2020 the total value of these provisions, including foreign exchange movements, was £273 million (2019: £204 million). The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice. Until matters are finally concluded it is possible that amounts ultimately paid will be different from the amounts provided.

Management have assessed the Group's provision for uncertain tax positions and have concluded that apart from the matters referred to below the provisions in place are not material individually or in aggregate, and that a reasonably possible change in the next financial year would not have a material impact to the results of the Group.

## French Tax Litigation

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £248 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intra-group transfer of shares in October 2012 and the tax consequences flowing from a potentially higher value that is argued for by the tax authorities. In October 2018 the Commission Nationale, an independent adjudication body, whose decision is advisory only, issued a report supportive of the Group's arguments for no adjustment. In December 2018 the French tax authorities issued their final assessments seeking the full amount of additional tax assessed (£248 million). In January 2019 the Group appealed against the assessment. In August 2020, the French tax authorities rejected the Group's appeal and the matter will now proceed to litigation. Given there are no substantive developments in the case it is appropriate to maintain the £44 million (2019: £42 million) provision for uncertain tax positions in respect of this matter.

## State Aid UK CFC

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company regime was published. It concludes that the legislation up until December 2018 does partially represent State Aid. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision. The Group, along with a number of UK corporates, has made a similar application to the European Court. The UK Government is obliged to collect any State Aid granted pending the outcome of the European Court process. Although the Group believes that it has no liability in respect this issue, under a range of different interpretations of the EU Commission's decision the Group has previously disclosed that preliminary calculations indicated a range of potential liabilities depending on the basis of calculation of up to £300 million.

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

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

## Transfer Pricing

The Group has tax audits in progress, relating to transfer pricing matters in a number of jurisdictions, principally UK, France and Germany. The Group estimates the potential gross level of exposure relating to transfer pricing issues is approximately £800 million (2019: £530 million). The Group holds a provision of £207 million (2019: £155 million) in respect of these items.

In August 2020 the Group notified HMRC of a potential Diverted Profits Tax (DPT) issue relating to brand rewards. On 25 September 2020, HMRC issued a preliminary notice under the DPT regime in respect of the year ended 30 September 2016 indicating a potential liability of c. £6 million. Collaborative discussions on the issue continue and it is the Group's belief the issue is a transfer pricing one, and will be resolved as such. If the transfer pricing discussions are not concluded by end of December 2020, HMRC will issue a final DPT notice, which the Group will be required to pay within 30 days. On conclusion of the transfer pricing discussions, an appropriate refund would be anticipated. Whilst the issues discussed affects all subsequent periods, no further DPT notices are anticipated.

The Group believe the transfer pricing provision held above appropriately provides for this and other transfer pricing issues.

## 7. Deferred Tax Assets and Liabilities

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

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

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

## 8. Dividends

### Distributions to ordinary equity holders

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

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

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

## 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	2020	2019
Earnings: basic and diluted – attributable to owners of the Parent Company	<b>1,495</b>	1,010
Millions of shares		
Weighted average number of shares:		
Shares for basic earnings per share	<b>944.4</b>	953.0
Potentially dilutive share options	<b>1.4</b>	1.9
Shares for diluted earnings per share	<b>945.8</b>	954.9
Pence		
Basic earnings per share	<b>158.3</b>	106.0
Diluted earnings per share	<b>158.1</b>	105.8

### Reconciliation from reported to adjusted earnings and earnings per share

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

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



## 10. Net Debt

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

£ million	Current borrowings	Lease liabilities	Non-current Borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2019	(1,937)	-	(11,697)	(622)	(14,256)	(2,286)	(11,970)
On adoption of IFRS 16	-	(326)	-	-	(326)	-	(326)
Reallocation of current borrowings from non-current borrowings	(1,340)	-	1,340	-	-	-	-
Cash flow	1,857	72	(1)	23	1,951	(611)	1,340
Accretion of interest	32	(7)	-	(28)	(3)	-	(3)
Change in fair values	-	-	-	80	80	-	80
New leases and modifications	-	(32)	-	-	(32)	-	(32)
Exchange movements	(54)	(6)	148	(269)	(181)	13	(168)
Transferred to held for disposal	-	-	-	-	-	(62)	(62)
At 30 September 2020	(1,442)	(299)	(10,210)	(816)	(12,767)	1,626	(11,141)

£ million	Current borrowings	Non-current Borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
At 1 October 2019	(2,397)	(9,598)	(679)	(12,674)	775	(11,899)
On adoption of IFRS 16	(1,656)	1,656	-	-	-	-
Reallocation of current borrowings from non-current borrowings						
Cash flow						
Accretion of interest	2,159	(3,528)	117	(1,252)	1,540	288
Change in fair values	20	(26)	39	33	-	33
New leases and modifications	-	-	(174)	(174)	-	(174)
Exchange movements	(63)	(201)	75	(189)	(15)	(204)
Transferred to held for disposal	-	-	-	-	(14)	(14)
At 30 September 2020	(1,937)	(11,697)	(622)	(14,256)	2,286	(11,970)

### Adjusted net debt

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

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

## 11. Derivative Financial Instruments

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

<sup>1</sup> Collateral deposited against derivative financial liabilities under the terms and conditions of collateral appendices.

Fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date. Market data is sourced through Bloomberg and valuations are validated by reference to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £27 million and would have been a £75 million reduction without considering the early termination options.

## 12. Assets held for sale

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

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

### CARRYING VALUE OF ASSET HELD FOR SALE

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

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

provision reversals due to changes in the estimated amount of the sale consideration offset by foreign exchange gains. (2019: £500 million impairment charge).

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

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

### PROFITS ARISING ON DISPOSAL

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

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

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

### 13. Trade and other receivables

£ million	2020		2019	
	Current	Non-Current	Current	Non-current
Trade receivables	2,410	4	2,599	5
Less: loss allowance	(112)	(4)	(72)	(5)
Net trade receivables	2,298	-	2,527	-
Other receivables	178	48	176	108
Prepayments	162	9	151	11
	<b>2,638</b>	<b>57</b>	<b>2,854</b>	<b>119</b>

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

## 14. Trade and other payables

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

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

## 15. Retirement Benefit Schemes

£ million	2020			Restated 2019		
	DBO	Assets	Total	DBO	Assets	Total
At 30 September 2019	(5,877)	5,223	(645)	(5,413)	4,680	(463)
Consolidated income statement expense						
Current service cost	(49)	-	(49)	(44)	-	(44)
Settlement gains/(losses)	-	-	-	3	(3)	-
Past service (losses)	-	-	-	(1)	-	(1)
Cost of termination benefits	(2)	-	(2)	(19)	-	(19)
Net interest (expense)/income on net defined benefit (liability)/asset	(104)	99	(5)	(147)	142	(5)
Administration costs paid from plan assets	-	(6)	(6)	-	(6)	(6)
Cost recognized in the income statement			(62)			(75)
Remeasurements						
Actuarial gains due to liability experience	36	-	36	73	-	73
Actuarial gain/(loss) due to financial assumption changes	22	-	22	(814)	-	(814)
Actuarial gain/(loss) due to demographic assumption changes	228	-	228	(14)	-	(14)
Return on plan assets excluding amounts included in net interest (expense)/income above	-	(9)	(9)	-	507	507
Remeasurement effects recognised in other comprehensive income			277			(248)
Cash						
Employer contributions	-	145	145	-	142	142
Employee contributions	(1)	1	-	(1)	1	-
Benefits paid directly by the company	266	(266)	-	218	(218)	-
Benefits paid from plan assets	-	-	-	48	(48)	-
Net cash			145			142
Other						
Exchange movements	(17)	(5)	(22)	(36)	26	(10)
Total other			(22)			(10)
At 30 September	(5,498)	5,182	(316)	(5,877)	5,223	(654)

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

The 2019 pension scheme assets and liabilities, actuarial gain/(loss) due to financial assumption and return on plan assets excluding amounts included in net interest income (expense) have been restated and reduced by £199 million (2018: £168 million) following the closure of the Netherlands scheme in 2017.

## 16. Contingent Liabilities

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

### Legal Proceedings

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking and health related effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group. This assessment of the probability of economic outflows at the year-end is a judgement which has been taken by management. Consequently, the Group has not provided for any amounts in respect of these cases in the financial statements.

### Master Settlement Agreement

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

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

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

### Competition Authority Investigations

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

## 17. Post Balance Sheet Events

### Sale of Premium Cigar Division

On 29 October 2020 the group completed the sale of the Premium Cigar Division for a consideration of €1,198 million. This business, excluding La Romana, was classified as an asset held for sale at 30 September 2020. For more details see note 12.

### USA

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

## 18. Brexit

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