



Thérèse Esperdy

THÉRÈSE ESPERDY
CHAIR

A CLEAR DIRECTION FOR SUCCESS

DEAR SHAREHOLDERS

2021 was a year of important progress, as we set out our new strategy and began to build the foundations to strengthen performance.

The Board has continued to take decisive action to make the necessary changes with pace. A key focus for the year has been to develop our leadership capabilities, while supporting the executive team in their strategic review.

We have made significant progress in enhancing the composition of both the Board and the Executive Leadership Team (ELT). I am particularly proud of the strong and diverse Board we have now assembled, which is equipped with a compelling mix of skills and experience relevant to Imperial and the challenges and opportunities it faces.

Our new strategy, vision and purpose are a comprehensive plan for change, which we have now begun to implement. I am pleased to report our operational and financial performance for the year has been delivered in line with our expectations, reflecting the early fruits of our more focused approach under the new leadership team.

Strategy update

Our aim is to create a stronger, more agile, consumer-centric company. At our Capital Markets Day in January we set out a clear plan of action that plays to our strengths as the fourth largest global tobacco player and nurtures our strong challenger mindset and culture. Core to our new approach is to place

consumers at the centre of our decision-making so we are better placed to meet evolving consumer needs. This is key to delivering better and more consistent results over time.

Stefan has formed his new Executive Leadership Team and work has started to restructure the Company aligned to the new strategy. Stefan has led this comprehensive review and delivered significant change despite the COVID-19 restrictions.

The Board continues to support and oversee the execution of our strategy and pays close attention to risk management, performance metrics, our ESG agenda and stakeholder engagement.

Capital allocation

Alongside our strategy, we have adopted a clear capital allocation framework to define how we will prioritise capital deployment over the next five years. The Board has carefully evaluated the investment needs of the business, the appropriate capital structure and the best way to maximise returns to shareholders through a progressive dividend policy and by returning surplus capital.

Strengthening the balance sheet remains an important priority so we can reach our target leverage. Achieving this target creates the headroom for a more flexible approach to return surplus capital to shareholders through share buybacks or special dividends, subject to market conditions at the time.

During the first quarter, we completed the sale of our Premium Cigar business, which will raise total proceeds of €1.225 billion. To date, we have realised proceeds of €1.15 billion, which have been used to reduce debt. These proceeds, together with the benefit from the decision in 2020 to rebase the dividend by one-third and our net cash generation in the year, and the favourable exchange rate benefit, mean our net debt has reduced by more than €1.7 billion in the year.

The Board recognises the importance of cash returns to investors. In line with our progressive dividend policy, and taking into account underlying business performance, we have announced a 1.0 per cent increase for the final dividend this year.

Board engagement

The Board has stepped up its engagement with key stakeholders this year. We held four Board listening events with groups of employees from around the world. These events were great opportunities for the Board to hear feedback directly from employees, as part of our overall engagement strategy. The outputs of these Board sessions are featured later in the People and Culture section of this report. These activities build on the town halls and other activities led by Stefan and the executive team.



With our new strategy clearly articulated, we have plenty to achieve in the year ahead.



The Board continued an active dialogue with shareholders and we have received regular feedback reports from investors throughout the year. I have also met with our largest shareholders to update on progress, listen to feedback and to discuss any concerns. I am pleased to report the actions we have already taken have resulted in a more positive dialogue with shareholders, although much remains to be achieved through our five-year plan.

I have also supported the new leadership team in their increased engagement with all key stakeholders, including customers, suppliers, regulators and NGOs, and we look forward to building on this in the coming year. The Board believes this more outward-looking approach is critical to changing the culture to create a stronger and more agile business.

Operating responsibly

Our commitment to our environmental, social and governance (ESG) responsibilities is captured in our new vision, purpose and values and will be delivered through our strategy.

Since becoming Chair, I have taken a direct interest in our ESG agenda and chaired a cross-functional ESG Steering Committee to maintain oversight on progress against our five ESG priorities. However, with the new ELT in place, it is now appropriate that Stefan chairs an operational ESG Steering Committee with representation from the key functions.

This will make regular reports to the Board and I will remain fully engaged.

The Board supports greater transparency, and has agreed additional publicly available KPIs for climate and energy, farmer livelihoods, human rights and waste to help our stakeholders measure our performance going forward. We have also reviewed our progress towards the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) and we are currently on track to deliver the required disclosures in 2022. I am pleased we have also committed to be net zero by 2040.

We recognise the most important ESG priority for many of our stakeholders is consumer health and, in order to realise our harm reduction ambitions, we need a stronger NGP business offering potentially reduced risk products. This is a key pillar of the new strategy and our market trials in heated tobacco and vapour are critical to establish the right foundation for this business. We will continue to report progress on these trials, which will define our metrics for consumer health.

The diversity of the ELT and the Board is an important visible sign of our commitment to diversity and inclusion and reflects our dedication to the continual development of all aspects of our ESG strategy: environmental, social and governance.

Board changes

Since becoming Chair, I have been determined to strengthen the Board's capabilities, expertise and diversity. We have made significant progress in assembling a high-quality and diverse team, notwithstanding the challenges of the global pandemic. I am delighted we have been able to further our expertise in several important areas including finance, business transformation, government and regulatory affairs and large multinational enterprises, as well as adding relevant sector experience in consumer goods and retail.

In January, we welcomed Alan Johnson to the Board as Non-Executive Director and a member of the Succession and Nominations Committee and the Audit Committee. Alan brings a strong financial background in consumer goods and retail, having held a number of senior finance positions at Unilever during a 30-year career.

In June, Pierre-Jean Sivignon stepped down from the Board for unforeseen personal reasons. The Board and I were deeply saddened to hear of his need to step down and would like to thank Pierre-Jean for his contribution to the Board.

In September, we announced the appointment of Ngozi Edozien and Diane de Saint Victor, who both joined the Board as Non-Executive Directors on 15 November. Ngozi brings to the Board over 30 years' experience in general management, finance, consultancy, and business development gained at multinational companies in Europe, USA and Africa. Diane has strong legal, regulatory and ESG experience relevant for us in the tobacco industry, having held a number of General Counsel and other key roles in an international career spanning more than three decades.

On the Executive Director side, we welcomed Lukas Paravicini to the Board as Chief Financial Officer in May. Lukas joined from ED&F Man Holdings where he was CFO and brings a combination of financial and operational experience from consumer goods companies, such as Nestlé and Fonterra, as well as experience in driving transformational change. Lukas succeeds Oliver Tant, who retired from the business in July. We wish to thank Oliver for his contribution to the business during his seven-year tenure.

Response to COVID-19

The Board has remained fully engaged in the Group's response to the pandemic, with the health and safety of our people being our first priority, followed by a focus on sustaining business performance. The Group's response has been an important agenda item at formal Board meetings and as part of our informal engagement.

On behalf of the Board, I would like to thank our employees for their dedication and resilience in the face of the continued COVID-19 pandemic during the year. Their actions have enabled our supply chain to operate smoothly throughout the pandemic.

The year ahead

With our new strategy clearly articulated, we have plenty to achieve in the year ahead. The newly formed executive team will continue to make the changes required for the next phase of Imperial's development and we will see a new consumer-centred, performance-focused and collaborative culture emerge.

The prioritisation of investment behind our top-five combustible markets and in our market pilots for heated tobacco and vapour is creating a stronger and more focused business that is better able to deliver consistent growth over time.

The Board is confident that Imperial has great potential and we remain focused on delivering the necessary changes to strengthen performance and realise value for our shareholders.

THÉRÈSE ESPERDY
CHAIR