

# SET UP FOR SUCCESS

## The right strategy, purpose and mindset

The strategy of Imperial Brands has three simple priorities. The first is to create sustained value in the combustible market through a focus on our priority markets where we can leverage our strengths. The second is to build a distinctive presence in next generation products (NGP), which, over time, delivers a material contribution both to harm reduction, through offering potentially reduced harm products to consumers, and investor returns. The third is to drive value from our broader global portfolio.

These priorities are mutually supportive. Scalable success in NGP requires both consumer focus and the full mobilisation of Imperial's core strengths in marketing, manufacturing and strong retail partnerships. At the same time, I believe our responsible, long-term commitment to improving the wellbeing of consumers provides a defining mission that energises the entire organisation.

Delivering on this strategy requires us to put the consumer at the centre of everything we do, to simplify our operations and to develop a rigorous performance culture.

As we build the foundations of this new culture, over the past year we have conducted a range of listening exercises with our 27,700 colleagues. Through this process, we developed a new statement of purpose: "Forging a path to a healthier future for moments of relaxation and pleasure".

Alongside the new strategy we have developed a vision statement which is "To build a strong challenger business powered by responsibility, focus and choice".

Our challenger mindset is an important and distinctive attribute. Although our brands have deep heritage, Imperial is, in important ways, a young company. This year marks our 25th anniversary as an independent public company and the key acquisitions that completed our global footprint occurred only in the past decade. In our recent history, we have been at our best when we have acted as an ambitious challenger, providing genuine choice for our customers and consumers, and an additional responsible industry player for regulators and policymakers.

After just over a year as CEO and having met many hundreds of colleagues, both virtually and face-to-face, I can confirm that this business retains that challenger spirit in abundance. However, as I said at the launch of our new strategy in January 2021, in order to make a reality of our ambition to put the consumer at the centre, we need to supplement our core strengths with additional capabilities in insights, innovation and product development.

I'd like to take this opportunity to thank our colleagues for their significant contribution, particularly with the challenges of a global pandemic.

### A YEAR OF PROGRESS

Delivered improved results with growth in revenue, profit and cash

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| <p><b>New five-year strategy and capital allocation framework announced</b></p> <p> See page 5 for more information</p> | <p><b>Purpose, vision and behaviours defined to support culture change</b></p> <p> See page 5 for more information</p> | <p><b>Focus on priority markets beginning to stabilise aggregate market share declines</b></p> <p> See page 30 for more information</p> |
| <p><b>NGP pilots underway in heated tobacco and vapour</b></p> <p> See page 34 for more information</p>                 | <p><b>Strengthened executive team in place to lead the transformation</b></p> <p> See page 22 for more information</p> | <p><b>Good progress on adopting new ways of working</b></p> <p> See page 46 for more information</p>                                    |



*Stefan Bomhard*

STEFAN BOMHARD  
CHIEF EXECUTIVE OFFICER

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**Being clear about our purpose and vision enables us to set in place the building blocks to develop the right culture to support our strategic delivery.**  
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Over the past 12 months we have assembled a diverse, new senior team and refreshed the way we work. This approach, bringing together our traditional strengths and future-facing capabilities, has led to improved operational and financial outcomes in line with our expectations.

**The right team**

Driving this new culture is the newly formed Executive Leadership Team (ELT). During the year, Andy Dasgupta joined in the newly created role of Chief Consumer Officer and a re-organisation of our reporting regions led to the appointment of Kim Reed as President and CEO of our Americas Region and Paola Poggi as President of Africa, Asia and Australasia (AAA). This new regional structure enables a sharper focus both on our largest market, the United States, and the portfolio of emerging markets that have the potential to become an important future growth engine. Javier Huerta joined as Chief Supply Chain Officer and Lukas Paravicini as Chief Financial Officer. A strengthened ELT team, collaborating closely with our experienced functional and market leaders, means Imperial now has the right blend of deep expertise of the tobacco industry and fresh ideas and perspectives from blue chip consumer goods companies, such as Nestlé, Unilever, P&G and Pepsi.

**Placing the consumer at the centre of all our decisions**

As Chief Consumer Officer, Andy Dasgupta is leading our focus on the consumer. Under him, we have adopted a more co-ordinated approach to how we collect and use consumer and competitor insights and data, which is leading to better-informed and faster decision-making. We are now building the right marketing, brand and portfolio management capabilities to support growth. In addition, Andy is leading a newly defined innovation programme that sits across tobacco and NGP to ensure we can meet consumer needs for new products, formats and experiences.

**Embedding a high performance culture**

We have taken action to embed a performance-based culture; one that holds our teams to account and rewards teamwork. For our top-five priority combustible markets this involved detailed monthly executive reviews of each market. We have revised incentive metrics for the Annual Bonus and Long-Term Incentive Plans (LTIP) to support our strategic objectives. We also have defined the new behaviours which will support the challenger-minded, consumer-centric and responsible culture we are creating at Imperial. In the coming year we will be rolling out a global programme to help our colleagues understand and embrace how they can best play a practical role in driving our transformation. More detail on this is given on pages 46 to 49.

**Simplifying our operations**

To simplify our operations, we are restructuring the organisation to reallocate resources to the customer and consumer-facing areas in our priority markets while simplifying other aspects of operations. This is realising savings to fund our investment plans. For example, we have already restructured our sales and marketing organisation, reducing the number of market clusters from 13 to 10. In addition, our business services are implementing modern operating models, which will embed more effective ways of working.

**The right performance**

Our results reflect the actions taken to focus our investment tightly behind our priority markets and to drive a more rigorous approach to managing performance in tobacco and NGP. In tobacco, we have begun to stabilise the long-term aggregate market share declines in our five priority markets through a greater focus on performance management, brand refreshes and enhancing our sales footprint in select areas. On a constant currency basis, Group net revenues grew 1.4 per cent year-on-year reflecting continued strong pricing dynamics. Reported revenue grew 0.7 per cent at actual exchange rates. As anticipated, we grew our Group adjusted operating profit by 4.8 per cent in the year on a constant currency basis driven by a reduction in our NGP losses and higher Distribution profit from Logista. Reported operating profit grew 15.2 per cent at actual exchange rates. We delivered solid cash flow performance, generating £1.5 billion of free cash flow.

**Focus on priority combustible market portfolio**

Aggregate market share in our five priority combustible markets declined by just two basis points, compared to a 17 basis point decline last year. Share gains in the US, UK and Spain partially offset declines in Germany and Australia. This relative improvement reflects the benefit of the changes we are making to focus greater resource and more detailed performance management on these priority markets. We have begun to increase investment in these markets behind some clear operational levers, such as increased sales force and key account management, areas which were identified by the local teams. We are making good progress, although the main investment increase begins in the coming year. Further details are provided in the Operating Review.

**Build a targeted NGP business**

The NGP category remains relatively nascent in the majority of markets. We have an exciting opportunity to make a meaningful contribution to harm reduction by building a targeted and sustainable business in this market, offering potentially reduced risk products. Our new approach offers consumers greater choice in markets where they already express a preference for a particular proposition.

In heated tobacco, two trials in the Czech Republic and Greece with our Pulze and iD propositions have received a positive response from our trade partners and consumers. These are attractive markets because heated tobacco is already a well-established NGP category and we can leverage our existing route to market for combustible tobacco products. The valuable consumer insights we gain from these pilot initiatives will inform the scale and pace of further market rollouts.

In the United States we have also started trials for a revised proposition for our vapour product, blu, including more innovative consumer communication and customer support. We have chosen to do this in a focused geographic area to best assess the impact of our new approach.

Modern oral nicotine continues to perform well in Norway and Austria, markets where consumers have a preference for this type of proposition.

**Deliver value from broader market portfolio**

Our detailed strategic review created a clear role for each of Imperial's markets. The structured approach to market segmentation will drive our allocation of resources in terms of management time and investment. Our more focused approach has supported market share gains across the Group with overall tobacco share up 20 basis points year-on-year. Highlights include a strong performance from the African market cluster, which has grown share, net revenue and profit.

**Environmental, social & governance (ESG)**

Our approach to ESG supports our new business strategy and defines our responsibilities as a business. It is aligned with those UN Sustainable Development Goals which are most relevant to our Company strategy, namely consumer health, climate and energy, farmer livelihoods and welfare, human rights, and waste.

Furthermore, we have recently made a commitment to be net zero by 2040. We already have targets which are consistent with reductions required to limit climate warming to 2°C, which have been approved by the Science Based Targets initiative (SBTi). We intend to re-engage with SBTi to approve revised and more ambitious goals consistent with climate warming of 1.5°C and our net zero ambition.

We have strengthened our ESG team with the hiring of Tony Dunnage as global lead on ESG. Tony brings more than 30 years' experience in Unilever, directing end-to-end supply chain and manufacturing sustainability for 250-plus factories and reports directly to the ELT.

**Capital allocation priorities**

We have a clear capital allocation framework linked to our strategy to maximise returns for shareholders, with four clear capital priorities:

- Invest behind the new strategy to deliver the growth initiatives.
- Deleverage to support a strong and efficient balance sheet with a target leverage towards the lower end of our net debt to EBITDA range of 2-2.5 times.

- A progressive dividend policy with dividend growing annually taking into account underlying business performance.
- Surplus capital returns to shareholders to be considered once target leverage has been achieved.

This year we reduced adjusted net debt by £1.7 billion, on a constant currency basis, with net debt to EBITDA gearing reduced by 0.5 times to 2.2 times, at constant currency. At actual exchange rates, reported net debt reduced by £1.8 billion.

In line with our progressive dividend policy, the Board has decided to increase the dividend by 1.0 per cent, and we remain committed to providing a reliable, consistent cash return to shareholders.

**Outlook**

We remain on track to deliver against our strategy with our expectations for the coming year in line with the guidance we provided at our Capital Markets Day in January this year. At constant exchange rates, we expect to deliver net revenue growth at a similar rate to the 2021 financial year, while adjusted operating profit is expected to grow slightly slower than net revenue, reflecting the increased investment in line with our strategic plan.

Our five-year strategy to strengthen performance and deliver growing shareholder returns is divided into two distinct phases. The year ahead will complete the two-year 'strengthening' phase with further investment in our five priority markets and NGP pilots, the embedding of new ways of working and cost-saving initiatives in line with our plans. This builds the foundations for the subsequent three-year phase of our plan, in which we will accelerate returns and deliver sustainable growth in shareholder value.



**STEFAN BOMHARD**  
 CHIEF EXECUTIVE OFFICER