STRENGTHENING OUR PERFORMANCE

LUKAS PARAVICINI
CHIEF FINANCIAL OFFICER

SUMMARY FINANCIAL INFORMATION

ORGANIC VOLUMES ↓ 2.9% led by organic declines in market size, offset by market share gains	ORGANIC ADJUSTED NET REVENUE ↑ 1.4% driven by robust price mix & strong cigar sales
REPORTED OPERATING PROFIT ↑ 15.2% driven by disposal of the Premium Cigar Division	ORGANIC ADJUSTED OPERATING PROFIT ↑ 4.8% driven by reduced NGP losses
REPORTED BASIC EPS 299.9p an increase of 89.5%	ORGANIC ADJUSTED EPS 246.5p an increase of 2.8% on a constant currency basis
CASH CONVERSION 83% 2020: 127%	ADJUSTED NET DEBT/ EBITDA 2.2x 2020: 2.7x

"Finance is a critical business partner to the organisation and we are investing to create agile teams that will enable faster decision-making and support our stewardship agenda."

This year's financial results reflect the good start we have made in implementing our new strategy. Excluding the divestment of our Premium Cigar Division, net revenues grew 1.4 per cent and organic Group adjusted operating profit rose 4.8 per cent, both on an organic constant currency basis.

Reported operating profit rose 15 per cent, mainly due to a profit of £281 million related to the disposal of the Premium Cigar Division.

Our business remains cash generative, delivering £1.5 billion of free cash flow, and this, together with other actions taken, has enabled us to reduce reported net debt by £1.8 billion to £9.4 billion.

Capital discipline remains a key focus and our objective to delever continues, with net debt/EBITDA reducing from 2.7x in 2020 to 2.2x in 2021. We remain committed to delivering leverage at the lower end of 2.0x to 2.5x.

In line with our strategic ambition, 2021 was a key transitional year in our two year strengthening phase during which we are building the foundations for future growth, underpinned by investments behind our operational and strategic levers and significant organisational and cultural change.

For an explanation of adjusted performance measures, see page 73

SUMMARY INCOME STATEMENT

£ million (unless otherwise indicated)	Reported 2021	Reported 2020	Adjusted 2021	Adjusted 2020	Organic Adjusted 2021	Organic Adjusted 2020
Operating profit						
Total Tobacco & NGP	**2,991**	2,587	**3,308**	3,288	**3,305**	3,257
Distribution	**148**	131	**258**	226	**258**	226
Eliminations	**7**	13	**7**	13	**7**	13
Group operating profit	**3,146**	2,731	**3,573**	3,527	**3,570**	3,496
Net finance costs	**81**	(610)	**(417)**	(429)	**(417)**	(429)
Share of profit of investments accounted for using the equity method	**11**	45	**11**	45	**7**	1
Profit before tax	**3,238**	2,166	**3,167**	3,143	**3,160**	3,068
Tax	**(331)**	(608)	**(716)**	(642)	**(714)**	(635)
Profit for the year	**2,907**	1,558	**2,451**	2,501	**2,446**	2,433
Earnings per ordinary share (pence)	**299.9**	158.3	**247.1**	254.4	**246.5**	247.2
Dividend per share (pence)	**139.08**	137.71	**139.08**	137.71	**139.08**	137.71

SUMMARY CASH FLOW STATEMENT – STATUTORY RECONCILIATION

£ million (unless otherwise indicated)	Reported 2021	Reported 2020	Adjusted 2021	Adjusted 2020
Group operating Profit	**3,146**	2,731	**3,573**	3,527
Depreciation, amortisation and impairments	**815**	910	**269**	311
EBITDA	**3,961**	3,641	**3,842**	3,838
Profit on disposal of subsidiary	**(281)**	–	**–**	–
Other non-cash movements	**(29)**	(85)	**(79)**	(137)
Operating Cash Flows before movement in Working Capital	**3,651**	3,556	**3,763**	3,701
Working capital	**(664)**	1,042	**(664)**	1,042
Tax cash flow	**(820)**	(568)	**(820)**	(568)
Cash Flows from Operating Activities	**2,167**	4,030	**2,279**	4,175
Net capex	**(150)**	(274)	**(150)**	(274)
Restructuring	**–**	–	**(112)**	(145)
Cash interest	**(400)**	(420)	**(400)**	(420)
Loan to third parties	**–**	(3)	**–**	(3)
MI dividends	**(93)**	(85)	**(93)**	(85)
Free Cash Flow	**1,524**	3,248	**1,524**	3,248
Acquisitions / disposals	**845**	(155)	**845**	(155)
Shareholder dividends	**(1,305)**	(1,753)	**(1,305)**	(1,753)
Net Cash Flow	**1,064**	1,340	**1,064**	1,340
Cash Flows from Operating Activities (as above)			**2,279**	4,175
Tax cash flow			**820**	568
Net capex			**(150)**	(274)
Net Cash Flow from Operating Activities post Capital Expenditure pre Interest and Tax			**2,949**	4,469
Cash Conversion			**83%**	127%

Adjusted performance measures

When managing the performance of our business we focus on non-GAAP measures, which we refer to as adjusted measures. Management believes that adjusted measures provide an important comparison of business performance and reflect the way in which the business is controlled. 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 note, which is detailed within our financial statements.

Reconciliations between reported and adjusted measures are included in the appropriate notes to our financial statements and within this financial review. 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.

This year we also show organic numbers which exclude the disposed operations of our Premium Cigar Division from both years to show a like-for-like performance; these measures are termed "organic adjusted" and are considered the relevant headline measures for performance commentary. The impact of these changes can be seen in our adjusted performance measures note.

GROUP RESULTS – ORGANIC ADJUSTED CONSTANT CURRENCY ANALYSIS

£ million (unless otherwise indicated)	Full year ended 30 September 2020	Foreign exchange	Constant currency movement	Full year ended 30 September 2021	Change	Organic constant currency change
Organic Tobacco & NGP Net Revenue						
Europe	3,569	(27)	9	**3,551**	**-0.5%**	**0.2%**
Americas	2,480	(184)	238	**2,534**	**2.2%**	**9.6%**
Africa, Asia and Australasia	1,689	(47)	(138)	**1,504**	**-11.0%**	**-8.2%**
Total Group	7,738	(258)	109	**7,589**	**-1.9%**	**1.4%**
Organic Tobacco & NGP Adjusted Operating Profit						
Europe	1,582	(1)	89	**1,670**	**5.6%**	**5.6%**
Americas	1,032	(78)	83	**1,037**	**0.4%**	**8.0%**
Africa, Asia and Australasia	643	(15)	(30)	**598**	**-7.0%**	**-4.7%**
Total Group	3,257	(94)	142	**3,305**	**1.5%**	**4.3%**
Distribution						
Net revenue	1,015	(5)	59	**1,069**	**5.3%**	**5.8%**
Adjusted operating profit including eliminations	239	0	26	**265**	**10.7%**	**11.3%**
Group Organic Adjusted Results						
Organic adjusted operating profit	3,496	(94)	168	**3,570**	**2.1%**	**4.8%**
Adjusted net finance costs	(429)	(1)	13	**(417)**	**2.7%**	**3.1%**
Organic adjusted EPS (pence)	247.2	(7.7)	7.0	**246.5**	**-0.3%**	**2.8%**

Financials are Organic and adjusted for the impact of the Premium Cigar Division disposal, all of which is in the Africa, Asia and Australasia segment. Net Revenue of £247m has been deducted in 2020 and £21m in 2021. Adjusted Operating Profit of £31m has been deducted in 2020 and £3m in 2021.

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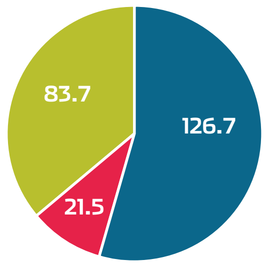
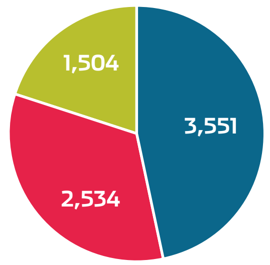


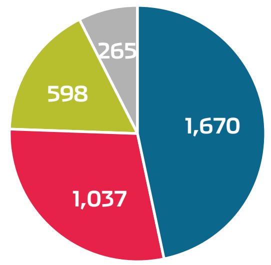
Europe	126.7
Americas	21.5
Africa, Asia and Australasia	83.7

ORGANIC NET REVENUE (ACT RATE), £M



Europe	3,551
Americas	2,534
Africa, Asia and Australasia	1,504

ORGANIC OPERATING PROFIT, £M



Europe	1,670
Americas	1,037
Africa, Asia and Australasia	598
Distribution	265

SALES PERFORMANCE (£M)

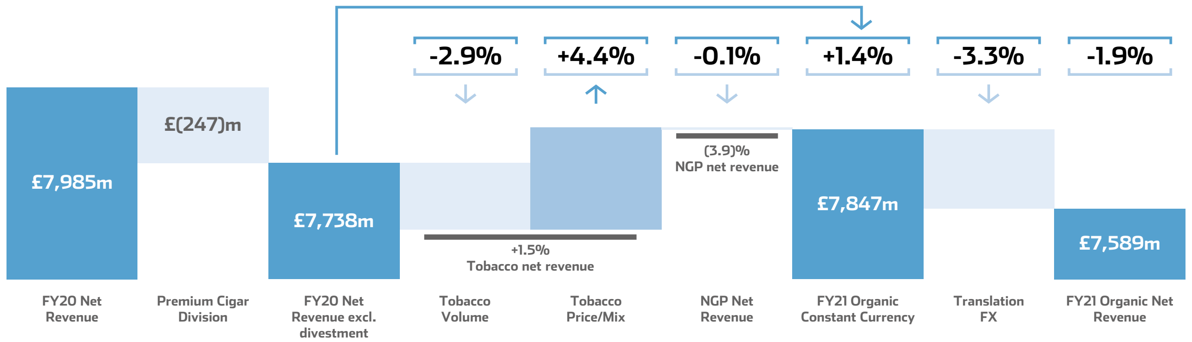
REPORTED REVENUE

0.7%

ORGANIC ADJUSTED NET REVENUE

1.4%

- Reported revenue grew 0.7% due to increases in duty and similar items.
- Organic net revenue grew 1.4% at constant currency comprising +1.5% from tobacco and -0.1% from NGP.
- Organic tobacco volumes were down 2.9%, in line with the market decline reflecting weaker duty free and travel retail volumes. This was partly offset by stronger market size in domestic markets such as the UK, Germany and the Nordics.
- Weighted share in our priority markets declined marginally by 2bps, compared to a 17bps decline in the prior year.
- Tobacco price mix of 4.4% was below historic levels, as a result of changes to the Australian excise regime. Excluding this impact price mix was 5.6% driven by pricing and positive market mix as a result of significant growth in US mass market cigars and repatriation of volumes due to travel restrictions.
- NGP revenue decreased 3.9% at constant currency as we exited a number of markets and refocused the category in line with the revised strategy.
- Translation FX was adverse due to sterling strengthening against the US dollar.



OPERATING PROFIT (£M)

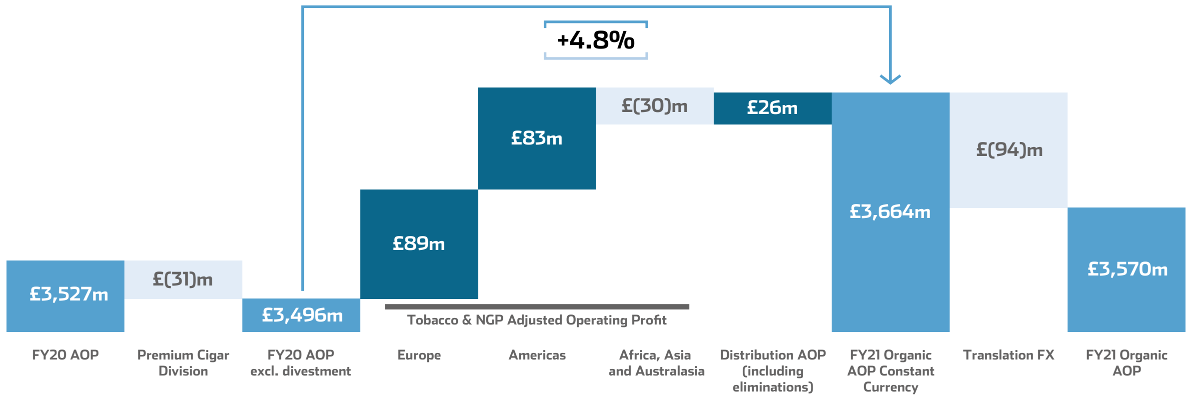
REPORTED OPERATING PROFIT

15.2%

ORGANIC ADJUSTED OPERATING PROFIT

4.8%

- Reported Group operating profit of £3,146 million grew 15.2%, driven by gains on disposal of the Premium Cigar Division.
- Organic adjusted Group operating profit increased 4.8% at constant currency.
- Tobacco and NGP adjusted operating profit grew £142m or 4.3% at constant currency.
- Tobacco organic adjusted operating profit was down £42 million (-1.2%) at constant currency. Strong underlying performance, led by mass market cigar volumes and pricing, was more than offset by lower stock profit in Australia (£88 million) and a charge to meet US state litigation (PSS) costs (£52 million)
- NGP losses reduced by £184 million or 57% as we optimised investment and as prior year write-downs (£124 million) were not repeated to the same extent.
- Distribution profit grew 11.3% reflecting good performance in pharmaceutical, parcel and convenience distribution.
- Translation FX was adverse due to sterling strengthening against the US dollar.



EARNINGS PER SHARE (PENCE)

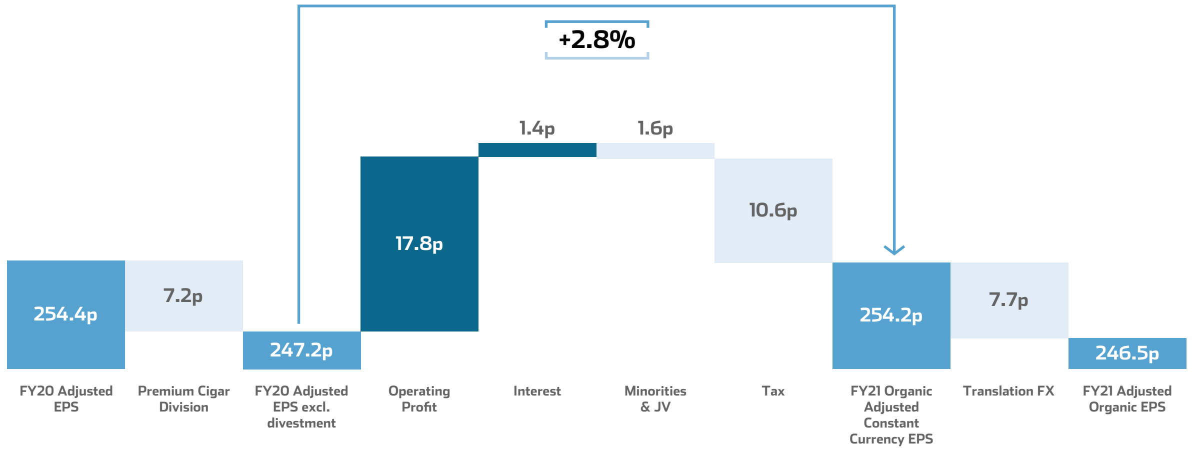
REPORTED EPS

89.5%

ORGANIC ADJUSTED EPS

2.8%

- Reported EPS increased 89.5% to 299.9 pence driven by marked to market foreign exchange accounting gains on financial instruments caused by a 6.0% weakening in the euro against sterling and the year-on-year impact of the Premium Cigar Division disposal.
- Organic adjusted EPS was 246.5 pence, up 2.8% at constant currency due to lower NGP losses, partially offset by an increase in the effective tax rate to 22.6%.
- Adjusted net finance costs are impacted by the buyback of a $1.25 billion US bond, with corresponding savings expected in 2022.



CASH FLOW (£M)

Cash flows from operating activities were £2,167 million (2020: £4,030 million), impacted primarily by an expected working capital outflow driven by changes to duty payment dates that we announced in 2020.

This also impacted free cash flow, with a £1.7 billion movement in working capital coming largely from our Logista markets in Western Europe, where governments changed the dates of excise collection linked to the COVID-19 pandemic.

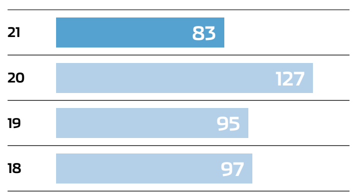
Net cash flow of £1,064 million (2020: £1,340 million) benefited from the proceeds from the sale of the Premium Cigar Division and the planned rebase of shareholder dividends that partly offset the working capital outflow.

Capital expenditure was £0.2 billion, a reduction of £0.1 billion on the prior year. The reduction was due to the suspension of some projects whilst the strategic review was undertaken together with COVID-19 related delays on other projects.

Cash conversion was 83%, in line with expectations (2020: 127% headline / 107% underlying) driven by the previously signalled working capital outflow.

Active capital discipline remains a key focus for 2021 and beyond and this year's strong cash flows along with proceeds from the Premium Cigar Division disposal have supported our reduction in gearing to 2.2 times (2020: 2.7 times).

CASH CONVERSION (%)



£ million (unless otherwise indicated)	2021	2020
Reported Cash Flows from Operating Activities	**2,167**	4,030
Reported Free Cash Flow	**1,524**	3,248
Reported Net Cash Flow	**1,064**	1,340
Cash Conversion	**83%**	127%

RETURN ON INVESTED CAPITAL

Return on invested capital (ROIC) increased by 130 basis points, driven primarily by a reduction in annual average capital.

As part of our FY21-23 LTIP we redefined our return on invested capital metric to better reflect management influence which resulted in a new, tightly defined and transparent ROIC calculation, which can be directly calculated from information contained within the Annual Report and Accounts.

Based on this new measure, 2021 average annual ROIC was 16.5% (2020: 15.2%, on equivalent basis).

A strong cash focus led to a £1.7 billion reduction in our annual average capital, driving an improvement in returns, with the benefit of increased adjusted operating profit offset by a higher effective tax rate of 22.6% (2020: 20.7%).

Our FY21 invested capital was lower than 2020, benefiting from the disposal of c. £1.0 billion of assets held for sale from the Premium Cigar Division and a c. £1.5 billion reduction in intangible assets due to a combination of the amortisation of historic acquisitions and beneficial foreign exchange movements. This was partly offset by an increase in working capital.

£m	2021	2020*	2019
Reported Operating Profit	**3,146**	2,731	
Adjusting Items (see note 6)	**427**	796	
Adjusted Operating Profit	**3,573**	3,527	
Implied Tax (at adjusted effective tax rate)	**(807)**	(730)	
Net Adjusted Operating Profit after tax	**2,766**	2,797	
Working capital	**(2,523)**	(3,467)	(2,461)
Intangible assets	**16,674**	18,160	18,596
Property, plant & equipment	**1,723**	1,899	1,979
Assets/(Liabilities) held for disposal	**(3)**	1,024	1,111
Invested Capital	**15,871**	17,616	19,225
Average Annual Invested Capital	**16,744**	18,421	
Average Annual ROIC	**16.5%**	15.2%	

* 2020 calculated on the same basis as 2021.

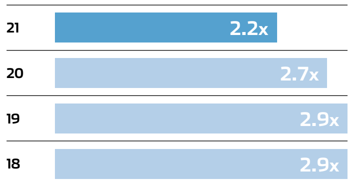
ADJUSTED NET DEBT/ EBITDA

Adjusted net debt/EBITDA reduced to 2.2x in 2021 from 2.7x in 2020. This was driven by a reduction in net debt from our cash flow generation and proceeds from the Premium Cigar Division disposal. The Group also benefited from foreign exchange movements on our net debt position through the strengthening of sterling against the euro and US dollar. This lowered the Group's adjusted net debt based on the year-end balance sheet FX rates when compared to the prior year.

We remain committed to delivering leverage to the lower end of 2.0x to 2.5x.

Reported net debt reduced by £1,768 million to £9,373 million (2020: £11,141 million). Excluding accrued interest, lease liabilities and the fair value of derivative financial instruments providing commercial hedges of interest risk, Group adjusted net debt was £8,615 million (2020: £10,299 million).

NET DEBT / EBITDA



£ million	2021	2020
Reported net debt	**(9,373)**	(11,141)
Accrued interest	**140**	156
Lease liabilities	**251**	299
Fair value of interest rate derivatives	**367**	387
Adjusted net debt	**(8,615)**	(10,299)

RECONCILIATION BETWEEN REPORTED AND ADJUSTED PERFORMANCE MEASURES

	Operating profit		Net finance costs		Earnings per share (pence)	
£ million unless otherwise indicated	**2021**	2020	**2021**	2020	**2021**	2020
Reported	**3,146**	2,731	**81**	(610)	**299.9**	158.3
Acquisition and disposal costs	**17**	26	**–**	–	**1.8**	2.8
Amortisation & impairment of acquired intangibles	**450**	523	**–**	–	**44.3**	49.2
Excise tax provision	**(1)**	(20)	**–**	–	**(0.1)**	(1.7)
Fair value adjustment of loan receivable	**(15)**	62	**–**	–	**(1.6)**	6.6
Profit on disposal of subsidiaries	**(281)**	–	**–**	–	**(29.7)**	–
Restructuring costs	**257**	205	**–**	–	**19.6**	18.4
Fair value and exchange movements on derivative financial instruments	**–**	–	**(496)**	176	**(60.7)**	25.3
Post-employment benefits net financing costs	**–**	–	**(2)**	5	**(0.3)**	0.4
Tax on disposal of Premium Cigar Division	**–**	–			**(1.2)**	2.0
Previously unrecognised tax credits	**–**	–	**–**	–	**(25.3)**	(7.1)
Uncertain tax positions	**–**	–	**–**	–	**–**	8.2
Tax on unrecognised losses	**–**		**–**	–	**5.0**	(4.3)
Adjustments above attributable to non-controlling interests	**–**	–	**–**	–	**(4.6)**	(3.7)
Adjusted	**3,573**	3,527	**(417)**	(429)	**247.1**	254.4
Premium Cigar Divestment impact	**(3)**	(31)	**–**	–	**(0.6)**	(7.2)
Adjusted Organic	**3,570**	3,496	**(417)**	(429)	**246.5**	247.2

Adjusting items

In the 2020 Annual Report and Accounts we committed to reviewing our treatment of restructuring costs as an adjusted measure by the end of 2020 in line with the completion of the Cost Optimisation Programmes, which were due to conclude that year. However, as previously announced, the COVID-19 pandemic meant some of these programmes' projects were delayed into 2021, therefore we deferred the review of the treatment of restructuring costs as an adjusted item until the end of this year.

In January, we announced the outcome of our initial strategic review, including an associated and specific time-bound restructuring programme to deliver new ways of working and efficiencies, which we refer to as the 2021 Strategic Review Programme. This resulted in one-off costs to reshape the business to support delivery of the new strategy. The programme excludes any costs associated with factory footprint rationalisation. The restructuring costs for the 2021 Strategic Review Programme will be treated as an adjusting item in 2021 and 2022, by which time the activities are expected to have been actioned. No further costs outside of approved restructuring programmes will be charged to restructuring in 2022.

A reconciliation of the Group's adjusted to reported operating profit is shown above.

The profit on disposal of £281 million relates to the profit arising on the divestment of our Premium Cigar business that was recognised at half year 2021.

As part of the strategic review, a charge of £118 million was made in relation to the impairment of NGP intangible assets. Of this, £45 million was recognised as amortisation & impairment of acquired intangibles, these having previously been acquired as part of the Nerudia acquisition. The further amount of £73 million relates to internally generated intangibles and was recognised as restructuring costs.

The Auxly loan receivable was revalued as at 30 September 2021, with a £15 million gain recorded due to a positive credit risk reassessment.

Adjusting items also includes restructuring costs of £257 million, with further details available in the restructuring section below.

Following the announcement of the completion of the Premium Cigar Division divestment in September 2020, proceeds of €1,041 million were received as expected in FY21, with a further €88 million received in October 2021.

A further €69 million is expected to be received in 2022 in relation to the transfer of the La Romana factory in the Dominican Republic.

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The 2021 charges in relation to these restructuring programmes are shown below.

£m	2021 Income Statement	2021 Cash
COP I	**7**	**12**
COP II	**16**	**41**
2021 Strategic Review Programme	**226**	**48**
Other	**8**	**11**
Total	**257**	**112**

An overview of the three programmes' cumulative charges, cash spend and annualised savings is shown below.

Restructuring charge & cash spend

	Income Statement Charges		Cash Costs		Savings
£m	Cumulative to date	Anticipated Total	Cumulative to date	Anticipated Total	Annualised Savings
COP I (2013)	945	945	571	634	305
COP II (2018)	848	848	548	650	320
2021 Strategic Review Programme	226	375-425	48	275	100-150

Restructuring

There are three restructuring programmes reflected in our 2021 results.

Cost Optimisation I Programme (COP I) announced in 2013 is now complete with small residual charges around the factory footprint activity.

Cost Optimisation Programme II (COP II), announced in 2018, is also now largely complete but did see a small carry over from activities scheduled for 2020 that were delayed due to the COVID-19 pandemic.

During the course of 2021, the Group announced a third programme as an output from the strategic review. This restructuring programme aims to reorganise and simplify the business, unlocking efficiency savings to enable increased investment in our core capabilities such as sales and marketing to support the five-year strategic plan. The majority of activity under this programme is expected in 2022 and will be treated as an adjusting item.

Since the strategy announcement, we have been working on detailed plans across a number of different initiatives. Following our detailed work we expect cash costs to be around £275 million, that will extend into 2023 and beyond with the associated restructuring costs expected to be in the range of £375 – £425 million.

The £257 million restructuring charge in 2021 comprised £226 million for the 2021 Strategic Review Programme, £23 million for COP I and II and £8 million of other costs that mainly related to Logista.

Finance costs

Adjusted net finance costs were lower at £417 million (2020: £429 million), reflecting lower adjusted net debt balances during the year. Reported net finance income was £81 million (2020: costs of £610 million), incorporating the impact of net fair value and exchange gains on financial instruments of £496 million (2020: losses of £176 million) and post-employment benefits net financing income of £2 million (2020: costs of £5 million). The gains on financial instruments primarily stem from foreign exchange accounting gains of £445 million as the value of euro financial instruments increased after sterling strengthened 6.0 per cent against the euro during the year.

Our all-in cost of debt increased to 4.0 per cent (2020: 3.4 per cent) as lower cost debt instruments matured in the year.

Our interest cover increased to 9.2 times (2020: 8.9 times) reflecting the lower adjusted finance costs.

Taxation

Our adjusted effective tax rate is 22.6 per cent (2020: 20.7 per cent) and the reported effective tax rate is 10.2 per cent (2020: 28.1 per cent). The increase in the adjusted effective tax rate was due to a less favourable profit mix and remeasurement of UK deferred tax balances. The adjusted tax rate is higher than the reported rate due to recognition of tax credits arising on an internal reorganisation of the Group's Spanish business and limited tax arising on both foreign exchange gains that arise on consolidation and on the disposal gain on the Premium Cigar Division disposal.

During the year a payment of £101 million was made to HMRC in respect of an on-going EU State Aid enquiry. A recoverable of the same value has also been recorded, as based on advice, we believe the Group has not received any State Aid. Further details are provided in Note 8.

We expect our adjusted effective tax rate for the year ended 30 September 2022 to be around 24 per cent. The increase in the rate in 2022 is due to legislative changes and certain historic tax losses being fully utilised in 2021.

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

Exchange rates

Foreign exchange had an adverse impact on Group adjusted operating profit and earnings per share at average exchange rates (2.7 per cent and 3.1 per cent, respectively) as sterling strengthened against the US dollar (7.3 per cent). Other major currencies remained broadly flat compared to the prior year.

Dividend payments

The Group paid two interim dividends of 21.06 pence per share in June and September 2021.

The Board has approved a further interim dividend of 48.48 pence per share and will propose a final dividend of 48.48 pence per share, bringing the total dividend for the year to 139.08 pence.

The third interim dividend will be paid on 31 December 2021 to shareholders registered on 26 November 2021. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2022 to shareholders registered on 18 February 2022.

In the year there were £1,305 million of shareholder dividend payments (2020: £1,753 million). The 25 per cent reduction represents the FY21 impact of the one-third rebasing of the dividend announced in May 2020 as part of the revised capital allocation policy to accelerate debt reduction.

Funding/Liquidity

During the year we repaid three bonds totalling £2.3 billion equivalent including the early repayment of a bond with a maturity date of July 2022. This was repaid from excess cash, which has the benefit of reducing gross debt as well as counterparty exposures. One bond of €1 billion was issued in the year with a maturity date in 2033. The denomination of our closing adjusted net debt was split approximately 77 per cent euro and 23 per cent US dollar. As at 30 September 2021, the Group had committed financing in place of around £12.7 billion, which comprised 24 per cent bank facilities and 76 per cent raised from capital markets. During the year the maturity date of our existing revolving credit facility of €3.5 billion was extended to September 2024 and bilateral facilities totalling €1.7 billion were cancelled.

The Group remains fully compliant with all our banking covenants and remains committed to retaining our investment grade ratings.

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