IMPERIAL BRANDS PLC
HALF YEAR RESULTS STATEMENT

18 MAY 2021

SOLID FIRST HALF; ON TRACK TO DELIVER FULL YEAR RESULTS

Report for the six months ended 31 March 2021

Business Highlights

- Positive start in implementing our new strategy to transform the business
- Organic growth in net revenue and adjusted profit coupled with strong cash flows
- Performance management focus has begun to stabilise aggregate market share in five priority markets
- Tobacco net revenue continues to benefit from strong pricing
- Improved NGP performance against a weak comparator period
- Market trials for vapour and heated tobacco on schedule underpinning our commitment to harm reduction
- Good deleverage progress with net debt reduced by >£3bn on a 12-month basis
- On track to deliver full year results in line with guidance

Financial Summary

Six months ended 31 March 2021		**Reported**			**Organic adjusted[2]**			
		2021	2020	Change	**2021**	2020	Actual	Constant currency[3]
Revenue/Net revenue[1]	£m	**15,568**	14,672	+6.1%	**3,571**	3,489	+2.4%	+3.5%
Operating profit	£m	**1,637**	925	+77.0%	**1,586**	1,460	+8.6%	+8.1%
Basic earnings per share	pence	**191.2**	55.6	+244.0%	**107.0**	100.0	+7.0%	+6.9%
Net debt	£m	**(11,003)**	(14,144)		**(10,328)**	(13,476)		
Dividend per share	pence	**42.12**	41.70	+1.0%	**42.12**	41.70	+1.0%	+1.0%

[1] Reported revenue includes duty, similar items, distribution and sale of peripheral products which are excluded from net revenue; net revenue comprises reported revenue less duty and similar items, excluding sale of peripheral products and distribution revenue.
[2] See page 3 for basis of presentation, page 16 and notes 3, 5 and 9 of the financial statements for the reconciliation between reported and adjusted measures. For comparison purposes, the Group uses the term "organic" to exclude the contribution of the Premium Cigar Division, which was divested on 29 October 2020.
[3] Constant currency removes effect of exchange rate movements on the translation of the results of our overseas operations.

Stefan Bomhard Chief Executive

"We have made a good start in implementing our new strategy to transform Imperial and remain on track to meet full year expectations.

"In tobacco, we have put in place a clear market prioritisation to increase focus on our best opportunities for sustainable profit delivery. We have begun to stabilise the aggregate market share performance across our top five priority markets reflecting the changes we have made to tighten performance management and the good underlying momentum established over the past year. This is an encouraging start and one that I look forward to building on over time as we begin to step up investment in new strategic initiatives.

"Our NGP performance has improved, albeit against a weak comparator period. We have focused investment more tightly behind our NGP market strongholds and are on track to activate market trials in vapour and heated tobacco later this year. Our aim is to create a successful NGP business that meets consumer needs and, over time, can make a meaningful contribution to harm reduction.

"We have started to change our culture and ways of working, including developing a new market cluster structure to simplify the organisation and allocating resources more effectively. I have now assembled my new Executive Team with key external hires, who have the necessary skills and expertise to complement Imperial's existing tobacco experience. This has significantly strengthened the capabilities we need to support the successful delivery of the new strategy.

"All of this has been achieved against the background of the ongoing global pandemic and I would like to thank employees throughout the business for their hard work and willingness to embrace change."

Results Overview

Volume and net revenue

- Organic net revenue up 3.5% driven by tobacco growth of 3.2% and NGP net revenue up 16.0%
- COVID-19 related changes to consumer buying patterns has continued to be a net benefit to revenue
- Tobacco price mix up 6.5% reflecting gross pricing growth of 5.3% (e.g. US, Germany, UK) and favourable product mix of 1.2% driven by a strong performance in US mass market cigars, while market mix was neutral
- Organic tobacco volumes down 3.3% with consumer demand partially offset by weaker duty free volumes and a reduction in US inventories following strong wholesaler purchases in March 2020
- Reported revenue grew 6.1%, higher than organic adjusted net revenue growth due to increased excise duties
- Begun to stabilise long-term aggregate market share performance in our five priority markets with gains in US, UK, and Spain partially offset by declines in Germany and Australia
- Priority market aggregate market share up 6 basis points; Group tobacco share growth of 30 basis points (MHT)

Profit

- Organic adjusted Group operating profit up 8.1% driven by a reduction in NGP losses and higher Distribution profit
- Reported operating profit of £1,637 million is higher by £712m, driven primarily by profit on disposal of the Premium Cigar Division (£281m) and a reduction in amortisation and impairment of acquired intangibles (£225m)
- Organic tobacco profitability is lower by 3.4% (£56m) driven by:
    - lower US trade inventories (£49m) reflecting the phasing of purchases in March 2020 to support consumer demand
    - lower stock profit in Australia (£41m) as previously guided
    - a charge to meet US state litigation costs (£42m)
    - partially offset by the underlying growth in tobacco profitability, up 4.8%, or £76m
- Charge (£42m) for US state litigation settlement in Minnesota and expected settlement in Texas removes the uncertainty; and full year guidance remains unchanged despite impact on adjusted profit
- NGP losses reduced by 62.5% to £83m as we continue to optimise investment and as the prior year write-downs (£95m) were not repeated to the same extent
- Distribution adjusted operating profit (including eliminations) up 39.4% with good growth in pharmaceuticals as well as reduced intra-company stock
- Organic adjusted EPS up 6.9% at constant currency driven by growth in operating profit, partially offset by an increase in the tax rate to 23.1%
- Reported basic EPS up 244% at 191.2p reflecting the higher reported operating profit, gain on disposal of Premium Cigar Division and marked to market foreign exchange accounting gains on financial instruments caused by a 7% weakening in the euro against sterling

Capital allocation

- Strong cash conversion of 122% (12-month basis) driven by working capital improvements and lower capex;
- Full year cash conversion guidance unchanged at c. 80% due to the unwind of the temporary Logista working capital benefits in the second half of last year
- Adjusted net debt reduced by £3.1bn (12-month basis) due to higher profit, the reduced dividend and the proceeds from the sale of the Premium Cigar Division and favourable FX; adjusted net debt to EBITDA was 2.6x (2020: 3.5x)
- Reported net debt reduced by £3.1bn (12-month basis), in line with reduction in adjusted net debt
- Interim dividend per share up 1.0%, or £4m, in line with our progressive dividend policy

Outlook

We have made a good start to the year. Although the pandemic continues to affect aspects of our business, our full year guidance remains unchanged with low-mid single digit organic adjusted operating profit growth at constant currency.

In the second half we anticipate some of the benefit we have seen in duty paid market size in certain territories to unwind as we lap a stronger comparator period and as volume trends start to normalise. Some second half prior period COVID-related benefits will not be repeated (e.g. UK stock profit, German VAT benefit) and the recently announced Australian excise regime will create a headwind of around £50 million.

Despite these factors, and increased investment behind our new strategy, we expect second half tobacco profitability to grow modestly against the same period last year. In NGP, our disciplined investment approach will support market trials in heated tobacco and vapour, with second half investment at a similar level to the first half.

At current exchange rates, adverse foreign exchange translation is expected to be a 2.5% - 3% headwind on full year earnings. As previously guided, a higher tax rate will have a c. 2% impact on earnings with organic adjusted earnings per share expected to be slightly ahead of the prior year at constant currency.

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.
- In these results, we also use the term organic to remove the impact of the divestment of our Premium Cigar Division to show a like-for-like performance, which is the basis of the performance commentary. The impact of the divestment is analysed in notes 3, 5 and 9 of the financial statements on adjusted performance measures.
- Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.
- Market share is presented as a 6-month average (MHT – moving half-year trend), unless otherwise stated. Aggregate market share is a weighted average across markets within our footprint.

Other Information

Investor Contacts		Media Contacts	
Peter Durman	+44 (0)7970 328 093	Alex Parsons	+44 (0)7967 467 241
James King	+44 (0)7581 052 880	Simon Evans	+44 (0)7967 467 684
Jennifer Ramsey	+44 (0)7974 615 739		

Analyst Presentation Webcast

Stefan Bomhard, Chief Executive, and Oliver Tant, Chief Financial Officer will present the results at 09:00 (BST) on 18 May 2021. It will be followed by a live question and answer session. The presentation slides will be available on www.imperialbrandsplc.com from 07.00am (BST).

You can join the webcast via https://edge.media-server.com/mmc/p/emaaqnxn. 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/emaaqnxn 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.
Conference ID No: 5667098
United Kingdom: 44 (0) 20 7192 8338 or toll free: 0800 279 6619
USA: +1 646 741 3167 or toll free: +1 877 870 9135

Cautionary Statement

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

.

CHIEF EXECUTIVE'S STATEMENT

We have a clear strategy to strengthen performance to build a truly consumer-focused business capable of sustained value creation in combustible tobacco, while making a meaningful contribution to harm reduction through stronger NGP operations. Our focus on consistently delivering against our strategy, coupled with a disciplined approach to capital allocation, will enhance returns for our shareholders.

These results reflect the continued benefit of the pricing power of tobacco, as well as our more disciplined approach to NGP. We have also begun to stabilise the aggregate market share of our top five tobacco markets reflecting a greater focus on performance management. This is encouraging early progress although we have much more to do as we begin to implement our strategic initiatives. Our cash conversion has remained strong.

My priorities for the first half of this year have been to make progress in three key areas:

- Right strategy – to conclude our strategic review and begin implementation across the business;
- Right team – to assemble a new leadership team with the right skills, capabilities and experience to deliver the strategy;
- Right performance – to deliver against our expectations while managing the challenges of the global pandemic.

Right Strategy

We announced our new strategy in January this year by defining the fundamental building blocks of how we will transform Imperial to unlock value over the coming years. This was the culmination of a comprehensive review of all aspects of the business, which began last summer, shortly after I became Chief Executive. It is a strategy developed by Imperial for Imperial – ensuring we focus our investment and resources in the areas that play to our strengths and meet the needs of our target consumers and other key stakeholders.

At our capital markets event in January, we set out a clear and compelling five year plan, centred around three strategic pillars:

- A clear focus on our priority combustible markets of US, Germany, UK, Spain and Australia, where we will increase investment through clearly defined operational levers to create value.
- We will drive value from our broader market portfolio by managing these markets more efficiently, through implementing global processes and sharing best practice.
- In NGP, we are investing in heated tobacco in a focused number of markets in Europe, as well as in vapour in the US, and selected European markets. Our approach will be more targeted, disciplined, and informed by local consumer preferences, underscoring our commitment to harm reduction.

In order to deliver this plan, we are changing our ways of working and culture through three critical enablers:

- We will become a truly consumer-centric company, putting the consumer at the centre of all our decisions, which will always be based on data and insights. To achieve this we are developing new capabilities that address consumer needs.
- We are embedding a performance-based culture, one that holds our teams to account for common goals and rewards collaboration and teamwork.
- We will simplify our operations and ways of working, which will realise savings to fund our investment plans.

This is a comprehensive plan for change, providing the opportunity to differentiate our approach from our peers to foster a challenger mindset. As the number two or three in many markets, we already have strong retail partnerships where our customers want us to succeed and provide good competitive tension.

We are embracing our smaller size to become faster, more agile and more responsive in our decision making. I believe Imperial can build a consistent and reliable business that will deliver enhanced and sustainable value creation for all stakeholders.

Within the business we are beginning to build momentum behind the new strategy and I am very pleased with how our global workforce is uniting behind the new way ahead. We are investing in the operational levers in our five priority markets - further details are in the Operating Review – and alongside this, we have started work on the critical enablers that support our strategic ambitions. We are taking action to simplify our ways of working, ensuring the consumer is at the centre of all our decision making. We recently announced plans to make our sales and marketing organisation more agile and efficient by reducing the number of market clusters from 13 to 10. We are also unifying our NGP operations under the leadership of our new Chief Consumer Officer, with a clear category-led structure that is aligned to the new strategy. These are the first steps towards transforming the business and unlocking value for our stakeholders.

We remain committed to NGP to make a meaningful contribution to harm reduction by transitioning more adult smokers to potentially reduced risk products. Our first priority is to improve returns by ensuring our investment is appropriately targeted in our existing markets. As a result, we have decided to exit NGP markets where we are unable to justify the business case; for example Japan and Russia. This has been a necessary step while we progress our plans for pilot trials for refreshed propositions in both heated tobacco and vapour later this year. We have a clear strategy with a differentiated approach to provide consumers with greater choice in established categories. In particular, for heated tobacco, our focus is on meeting consumer needs in markets where the category is already established and where we are able to leverage our established routes to market.

Right Team

Strengthening the leadership team has been a key priority to ensure we have the right skills, capabilities and experience to deliver the strategy. My objective has been to blend the strong knowledge and expertise of tobacco that exists in the business with fresh ideas and perspectives from some key external hires outside of tobacco. This has been particularly important for strengthening our focus on the consumer.

Most recently we have added Lukas Paravicini, who will replace Oliver Tant as Chief Financial Officer after these interim results, and Andy Dasgupta as Chief Consumer Officer, a newly created role that will be instrumental in changing our approach to consumers. Both joined Imperial in May.

Lukas brings a combination of financial and operational experience from consumer goods companies, such as Nestle and Fonterra, as well as expertise in driving transformational change in global shared services in large international organisations, which will be critical in the delivery of our strategy.

Andy will lead our focus on consumers by ensuring we have the right marketing, brand and portfolio management capabilities to successfully deliver our five-year plan. Andy can draw on his extensive experience in consumer, brand and innovation, having held senior roles in significant international consumer goods companies, including Pepsi, Fonterra and GSK.

Javier Huerta joined us in February as Group Manufacturing and Supply Chain Director. He replaces Walter Prinz who has retired following a long and illustrious career with Imperial. Javier has 24 years of manufacturing and supply chain experience, having held a number of senior roles in this field at Unilever and Nestle in different geographies, most recently as Executive Vice President Supply Chain for Foods and Refreshment at Unilever.

These changes are in addition to the external hires I made last year with Murray McGowan as Group Strategy and Transformation Director and Alison Clarke as Chief People and Culture Officer. They all join Divisional Directors Dominic Brisby and Joerg Biebernick, who both have extensive knowledge of the tobacco sector.

Right Performance

I believe the changes we are making through the new strategy will support a collaborative and disciplined approach to performance management. As part of the actions we have already taken, we are focusing greater resource on regular performance reviews for the five priority markets. We assess progress against our operational priorities and agree actions to improve performance, making the organisation better able to respond to changing market and consumer dynamics. This approach has already helped to stabilise the aggregate market share results in our five priority markets and will deliver further performance improvements over time.

Our critical enablers will also drive performance improvements as we place the consumer at the centre of the business and we enhance our capabilities and consumer data and insights to support improved decision making. We have self-help opportunities where we can embrace new ways of working by adopting many of the tried and tested operating models that have been deployed successfully in other businesses – such as global business services. This will be reinforced by a performance-based culture with greater accountability and ownership of delivery. I recognise these cultural changes take time, although our people are already embracing change and are committed to making Imperial a successful business again.

The global pandemic has emphasised the importance of agility in managing businesses through uncertain times. Since joining Imperial I have prioritised the health, safety and well-being of our people during the coronavirus and I have been impressed by how the organisation has responded to the pandemic.

Managing Our Environmental, Social and Governance Responsibilities

A priority for the newly formed Executive team is to conduct a further review of our sustainability strategy and ESG responsibilities to satisfy ourselves that we are taking the most appropriate approach. We have developed a broader suite of ESG KPIs that we will make publicly available to provide greater transparency on the progress we are making across all of our ESG priorities. This enhanced disclosure will be in our annual report and on our corporate website later in the year.

During the half year we conducted Imperial's first ever diversity and inclusion survey, which provided us with valuable insights into how inclusive our people feel the business currently is. The results of this survey show we have work to do and, as a consequence, we have established workstreams to find solutions to the issues raised. This is an important part of the work we are doing to develop a collaborative culture.

Capital allocation

We have set out a clear capital allocation framework. Our first priority is to invest behind the new strategy to deliver the targeted organic growth initiatives in combustibles and NGP. Our second priority is to strengthen the balance sheet by reducing gearing towards the lower end of our net debt to EBITDA range of 2-2.5 times. We recognise the importance of cash returns: we have a progressive dividend policy to provide a reliable, consistent cash return to shareholders and we have announced a 1% increase for the dividend this year. Our final priority is to return surplus capital to shareholders as soon as our target leverage has been achieved. I am pleased to report we reduced adjusted net debt by £3.1 billion on a 12-month basis and our net debt EBITDA gearing was 2.6 times, down from 3.5 times a year ago.

Our results demonstrate the continued resilience in tobacco pricing across key markets and the benefit of our more focused approach to NGP. We have begun to stabilise the aggregate market share results in our five priority markets through a greater focus on performance management and we will continue to strengthen performance through the implementation of our new strategy.

Overview

Organic constant currency growth by region

	Volumes		Total Net Revenue		Adjusted Operating Profit	
	bn SE	%	£m	%	£m	%
Europe	(2.7)	-4.3%	26	+1.6%	21	+3.0%
Americas	(0.4)	-4.1%	97	+8.8%	59	+15.1%
Africa, Asia & Australasia	(0.7)	-1.6%	(1)	-0.2%	5	+1.9%
Total	(3.8)	-3.3%	122	+3.5%	85	+6.2%
Distribution					22	+22.9%
Eliminations					12	+134.4%
Total Group	(3.8)	-3.3%	122	+3.5%	119	+8.1%

Organic performance excludes the contribution from the Premium Cigar Division from both financial periods following its divestment on 29 October 2020 to support performance comparison on a like-for-like basis.

Total Group tobacco volumes decreased by 3.3 per cent, in line with the overall market, as travel restrictions continued to affect our global duty free business and as COVID-19 influenced consumer and wholesaler buying patterns. Most notably this caused inventory reductions in the US following increased wholesaler purchases in March 2020 to meet COVID-19 pantry loading demand.

We have begun to stabilise the aggregate market share performance in our priority markets, with share growth in the US, UK and Spain, offsetting declines in Germany and Australia. The share improvements reflect an underlying momentum established over the course of the past year supported by the changes we are making to focus greater resource on performance management by the senior team in these priority markets. We will build on this over time as we begin to increase our investment in these priority markets – and it may take some time for these new initiatives to bear fruit, particularly where they involve longer term brand building activities.

Tobacco and NGP net revenue grew 3.5 per cent reflecting strong pricing in tobacco and growth in NGP sales against a weak comparator.

Total Group tobacco and NGP adjusted operating profit was up 6.2 per cent, benefiting from strong pricing driven by growth in Americas and reduced losses in our NGP business as last year's provisions (£95 million) were not repeated and we refocused our investment.

Europe

		Half Year Result		Change	
		2021	2020	Actual	Constant Currency
Tobacco volume	bn SE	**60.0**	62.7	-4.3%	
Total net revenue	£m	**1,670**	1,618	+3.2%	+1.6%
Tobacco net revenue	£m	**1,615**	1,588	+1.7%	+0.1%
NGP net revenue	£m	**55**	30	+83.3%	+78.7%
Adjusted operating profit	£m	**750**	706	+6.2%	+3.0%

Positives

- Germany and the UK continue to deliver strong financial performance, with market size benefiting from reduced travel
- Share gains in Spain and the UK supported by our focus on local jewel brands
- blu share continues to hold up relatively well with a more targeted approach to investment

Negatives

- Reduced travel impacts sales in global duty free and traditional holiday destinations
- Market share in Germany continues to decline, strategic initiatives will take time to address
- Travel recovery remains difficult to predict given varying levels of COVID-19 across Europe

Our European results were impacted by a number of different factors, most notably continued reduced levels of travel impacting market and channel trends, particularly in our global duty free business. Financial performance benefited from better market size trends in Northern Europe, relatively strong tobacco pricing and reduced losses from our NGP business.

We achieved share gains in Spain and the UK, supported by our tobacco portfolio work and enhanced strategic focus on local jewel brands, such as Nobel and Embassy. We have started to take steps to address share performance in Germany, including investing in sales force coverage but it will take time to rejuvenate results.

Tobacco volumes decreased by 4.3 per cent, with almost half of the volume decline driven by lower sales in our global duty free business as international travel was significantly curtailed. Excluding duty free, European market volumes were down 1.9 per cent, with relatively stronger performances in higher margin Northern Europe markets of the UK, Germany and Norway as consumers stayed at home, offset by weaker performances in southern European markets of Spain, Italy and Greece, which have been affected by the lack of holiday travel.

Total net revenue was up 1.6 per cent at constant currency, benefiting from increased NGP sales across multiple markets against a weak comparator last year, which was affected by the action we had taken to destock the supply chain as well as vapour category declines. NGP sales of £55 million were lower than the £68 million reported in the second half of 2020, primarily due to a reduction in shipments to the Spanish market. Tobacco net revenue was up 0.1 per cent at constant currency, with positive price mix of 4.4 per cent led by higher margin markets of Germany and the UK, partially offset by lower global duty free and travel retail sales as a result of virus related travel restrictions.

Our blu share in several markets such as the UK, France and Italy remains relatively stable despite lower levels of investment and partly supported by market exits by competitors. In heated tobacco, we continue to prepare ahead of two pilot market launches later this year. In modern oral nicotine, we have continued to achieve strong growth in Norway and Austria although our progress in Germany has slowed following regulation uncertainty.

Adjusted operating profit was up 3.0 per cent at constant currency, driven by reduced losses in our NGP business as last year's provisions for write-downs (£30 million) were not repeated to the same extent and as we targeted investment more tightly. Tobacco profitability was slightly lower due to an increase in advertising and promotion in our priority markets as well as higher regulatory costs.

Priority Markets *Tobacco Share*	**Performance**
Germany *20.0% (-40bps)* *12% of Group net revenue*	Market size remains strong with less travel and border restrictions benefiting duty paid sales in Germany. Addressing our longer term share decline in Germany will take time as we implement the planned brand initiatives under our new strategy. However, we have begun to recruit new sales people to expand our field force and improve our sales coverage and distribution in areas of identified weakness. blu's share of the closed system vapour market continues to hold up well.

UK *40.8% (+70 bps)* *10% of Group net revenue*	Duty paid tobacco market size continues to benefit from reduced travel and lower levels of illicit trade. Our tobacco share performance has benefited from a focus on key accounts and the launch of Embassy Signature with share growth in the South. This has partly helped to offset share pressure following the characterising flavours ban in May 2020. Consumer demand for our blu vapour products remains stable, with investment maintaining brand relevance.
Spain *29.2% (+40 bps)* *4% of Group net revenue*	Spain market size continues to be negatively affected by COVID-19-related travel restrictions affecting our travel retail business, with reduced tourist numbers and lockdown constraints reducing occasions for domestic social smoking. However, we have continued to gain tobacco market share driven by the revival of our local brand Nobel which has benefited from increased investment and limited edition formats.

Americas

		Half Year Result		Change	
		2021	2020	Actual	Constant Currency
Tobacco volume	bn SE	**9.4**	9.8	-4.1%	
Total net revenue	£m	**1,131**	1,092	+3.6%	+8.8%
Tobacco net revenue	£m	**1,098**	1,062	+3.4%	+8.6%
NGP net revenue	£m	**33**	30	+10.0%	+16.0%
Adjusted operating profit	£m	**426**	390	+9.3%	+15.1%

Positives

- Cigarette share growth up +20 basis points to 9.0 per cent.
- Tobacco pricing remains strong with two market price rises in the period
- Strong growth from mass market cigars driven by Backwoods and Dutch Masters
- US state litigation settlement removes uncertainty and can be managed within full year guidance

Negatives

- Performance affected by prior year timing of wholesale inventory levels to meet increased retail demand ahead of lockdowns

The US is our largest single market representing 32 per cent of Group net revenue. The market remains attractive, with the tobacco market size broadly flat and strong growth in mass market cigars. Reported performance was impacted, as expected, by prior year wholesaler inventory movements to meet accelerated demand last March as COVID-19 lockdown conditions were enforced. Inventory movements partly offset continued strong tobacco pricing, with our financial performance benefiting from two tobacco price rises since October 2020 and a weak NGP comparator impacted by inventory write-downs.

We grew our share of the USA cigarette market by 20 basis points, to 9.0 per cent. Our portfolio strategy continues to offer consumers brands at each of the key price points, with Winston and Kool's share of their respective premium categories remaining stable and share growth driven by Sonoma and Crown's in the growing deep discount segment. To drive greater sales coverage, we have started to expand our salesforce to support increased coverage and visit frequency.

Our divisional tobacco volumes declined by 4.1 per cent. However, US shipment volumes declined 5.6 per cent driven primarily by a year-on-year cigarette inventory movement of 0.9 billion sticks or £82 million of net revenue, partly offset by strong mass market cigar growth, up 62.5 per cent. Excluding the impact of inventory movements, cigarette volumes grew 0.7 per cent, benefiting from market share growth of 20 basis points against a first half market size decline of 1.8 per cent.

Our share performance in mass market cigars grew substantially against a weak comparator impacted by natural leaf supply constraints. Sales of Backwoods in the premium natural leaf segment benefited from enhancements to our manufacturing and supply processes, as well as increases in activation, including limited edition launches and online activities. Mass market cigar performance also benefited from the recent successful launch of a Dutch Leaf variant in the value segment.

On a constant currency basis, tobacco net revenue increased by 8.8 per cent, primarily reflecting continued strong cigarette price/mix and the growth of our mass market cigar business.

NGP revenues of £33 million were up against last year (2020: £30 million). Our plans are progressing well for an initial pilot trial later this year with a revised go-to-market strategy for blu. We also continue to wait for the outcome of the Premarket Tobacco Product Application (PMTA), under which we submitted an application last April to continue the marketing of a range of blu vapour products with various nicotine strengths and flavours.

Adjusted operating profit was 15.1 per cent higher at constant currency, driven by strong tobacco pricing and the benefit of last year's £48 million NGP write down not being repeated to the same extent, which more than offset the £49 million impact of the wholesaler inventory movement and a £42 million charge for litigation settlement costs in Minnesota and Texas. These settlements remove uncertainty and the slightly increased ongoing costs can be managed within our existing medium-term guidance.

Into the second half of the year, our focus remains on operational levers; improving sales force coverage and effectiveness, together with initiatives to enhance brand equity.

Africa, Asia and Australasia

		Half Year Result		Change	
		2021	2020	Actual	*Organic constant currency
Organic tobacco volume	bn SE	**41.3**	42.0	-1.6%	
Total organic net revenue	£m	**770**	779	-1.2%	-0.2%
Organic tobacco net revenue	£m	**763**	756	+0.9%	+1.8%
NGP net revenue	£m	**7**	23	-69.6%	-65.7%
Organic adjusted operating profit	£m	**286**	278	+2.9%	+1.9%

**Organic performance excludes the contribution of the Premium Cigar Division from both financial reporting periods following its divestment in October 2020. The Premium Cigar Division contributed £21m to net revenue in 2021 (2020: £103m) and £3m to adjusted operating profit (2020: £9m). Further details are provided in notes 3, 5 and 9 of the financial statements.*

Positives

- Refocus on local jewel brands in Africa benefits market share and financial performance
- NGP exits in Japan and Russia announced and underway

Negatives

- Results were impacted by the prior year timing of £41m of stock profit in Australia
- Duty paid cigarette market size in higher margined AAA markets of Australia and Japan remains under pressure

The Divisional results are affected by the sale of the Premium Cigar Division in October 2020. The results presented here are on an organic basis by excluding the contribution from Premium Cigar Division in both periods to aid comparison of performance on a like-for-like basis. The impact of the divestment is analysed in notes 3, 5 and 9 of the financial statements on adjusted performance measures.

Organic tobacco volumes were 1.6 per cent lower, as volume declines in the Middle East, Turkey and Australia were partially offset by volume growth in Russia, Vietnam and the Ivory Coast.

Our divisional share performance benefited from strong share performances in Russia, the Middle East and our enhanced focus on local jewels in our African cluster, with strong growth from Gauloises across North Africa, particularly Morocco. We have also taken steps to reverse local brand migrations in Madagascar to strengthen our portfolio.

Organic tobacco net revenue grew 1.8 per cent at constant currency driven by positive revenue performances in Russia, Saudi Arabia, Taiwan and Ivory Coast, partially offset by the prior year timing of a £41 million of Australian stock profit, which benefited last half year.

Australia's results were also impacted by continued declines in the duty paid market size following accelerated excise increases over recent years, as well as market share declines driven by continued growth and price aggression in the lower 'fifth price tier'. We are taking steps to improve our performance, including the appointment of a new General Manager in April who has considerable experience of the Australian tobacco market. Following the Australian Government's decision to step away from the 12.5 per cent annual excise increases, we expect a second half headwind from lower stock profit of around £50 million.

Our performance in Russia continued to benefit from improved pricing and a reduction in discounting in the key account channel. In Saudi Arabia our volume and financial performance reflected strong demand for fresh seal formats.

NGP net revenue was down 65.7 per cent at constant currency, reflecting reduced sales following our decision to exit the vapour market in Russia and Japan and the heated tobacco market in Japan. This reflects our more targeted approach to NGP as we have taken steps to de-focus Japan and Russia, ahead of announced strategic exits later this year.

Organic adjusted operating profit was up 1.9 per cent at constant currency with profit growth in Russia and Africa, combined with lower investment behind NGP, more than offsetting Australia challenges.

Priority Market *Tobacco Share*	**Performance**
Australia *30.8% (-240 bps)* *5% of Group net revenue*	Market size declined 4.6% on a six month basis, a relatively improved recent trend although volumes continue to be affected by affordability. Our share performance has been negatively impacted by price aggression from competitors discounting post excise increases and continued growth in the 'fifth price tier'. Whilst Parker & Simpson continues to grow share at this tier, this has not been enough to offset declining JPS sales as consumers move down the price ladder.

Distribution

		Half Year Result		Change	
		2021	2020	Actual	Constant Currency
Net revenue	£m	**533**	488	+9.2%	+5.8%
Adjusted operating profit	£m	**121**	95	+27.5%	+22.9%
Operating margin	%	**22.7**	19.5	+320 bps	+320 bps
Eliminations	£m	**3**	(9)	+136.7%	+134.4%
Adjusted operating profit (inc. eliminations)	£m	**124**	86	+44.7%	+39.4%

Although COVID-19 continues to restrict movements in many of its end markets, Logista has continued to distribute products to customers with almost all the points of sale, products and services classified as essential by governments.

Net revenue grew 5.8 per cent at constant currency driven by new contracts in pharmaceutical distribution and by a strong performance in courier and long-distance transportation businesses, as well as an increase in tobacco distribution and convenience products in Italy and France. Adjusted operating profit increased 22.9 per cent at constant currency due to strong cost management initiatives.

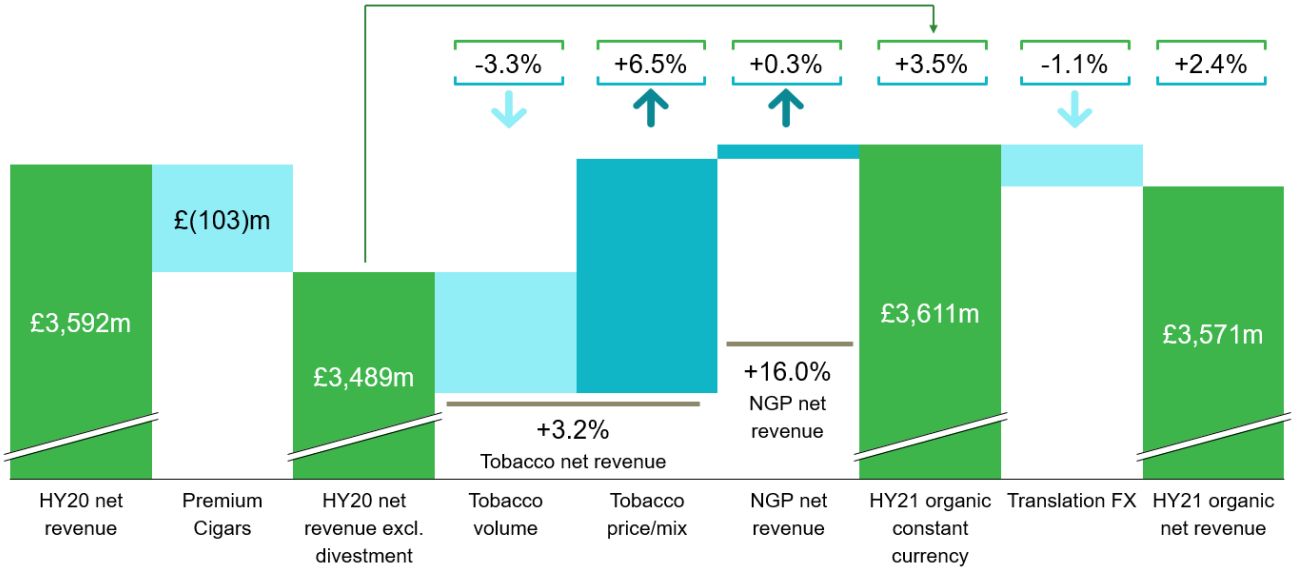
The adjusted operating profit contribution to the Group, after eliminations, increased by 39.4 per cent. This reflects the increase in adjusted operating profit and the movement in eliminations arising from a reduction in inventory levels held by Logista following the stock increases in March 2020 to temporarily reinforce supply contingencies in the context of the COVID-19 pandemic.

In line with other Imperial owned entities, we continue to benefit from an intercompany cash pooling arrangement with Logista, which further enhances the Group's liquidity. On a 12-month basis, the daily average cash balance loaned to the Group by Logista was £2.1 billion, with movements in the cash position during the 12-month period varying from a high of £4.0 billion to a low of £0.5 billion, primarily due to the timing of excise duty payments. At the period end, the loan position was £1.7 billion compared to £2.4 billion at 30 September 2020.

FINANCIAL REVIEW

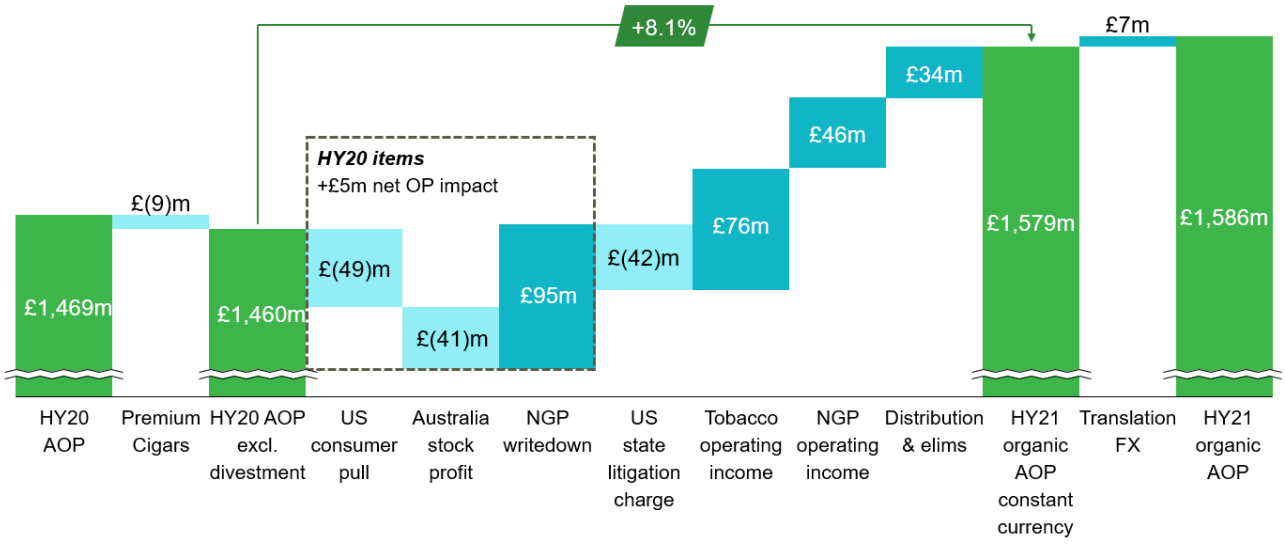
Net revenue growth driven by strong tobacco pricing and NGP sales

- Net revenue grew 3.5% at constant currency comprising +3.2% from tobacco and +16.0% from NGP.
- Tobacco volumes down 3.3%, in line with the market decline reflecting weaker duty free and travel retail volumes and lower US inventories following wholesaler demand in March 2020. This is partly offset by market size in domestic markets such as UK, US, Germany and the Nordics.
- Price mix of 6.5% reflects tobacco pricing of 5.3% driven by our priority markets and positive product mix from increased Backwoods sales in the US which offsets downtrading across other geographies.
- NGP revenue increased 16.0% at constant currency reflecting the lapping of last year's trade inventory destock
- Adverse translation FX down 1.1% due to sterling strengthening against the US dollar, partly offset by sterling weakening against the euro



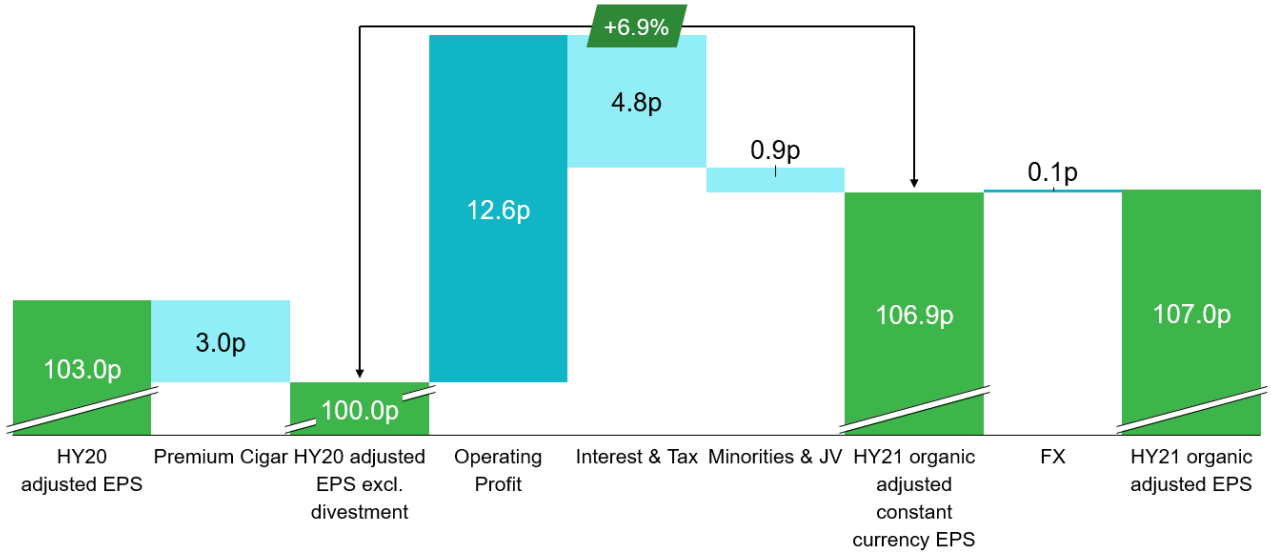
Organic adjusted operating profit up 8.1% at constant currency; reported operating profit up 77.0%

- Organic adjusted operating profit up 8.6% at actual rates
- Tobacco adjusted operating income down £56m (-3.4%) at constant currency driven by:
  - lower US trade inventories (£49m) reflecting the phasing of purchases in March 2020 to support consumer demand
  - lower stock profit in Australia (£41m) as previously guided
  - a charge to meet US state litigation costs (£42m)
- Excluding these impacts, tobacco profitability increased by £76m, or 4.8%
- NGP losses reduced by £141m or 62.5% as we continue to optimise investment and as the prior year write-downs (£95m) were not repeated to the same extent
- Distribution operating profit up 39.4% reflecting a good performance in the pharmaceutical sector as well as reduced intercompany stock
- Reported operating profit of £1,637 million grew 77%, driven by gains on disposal of the Premium Cigar Division
- Translation FX reflects sterling weakening against currencies in higher margin geographies in Europe/Australia



Organic adjusted earnings per share of 107.0p up 6.9% at constant currency; reported earnings per share up 135.6p to 191.2p

- Organic adjusted EPS is 107.0 pence, up 6.9% at constant currency due to lower NGP losses, partially offset by an increase in the effective tax rate from 21% to 23.1%
- Reported EPS up 244% at 191.2 pence materially due to marked to market foreign exchange accounting gains on financial instruments caused by a 7% weakening in the euro against sterling and the impairment of Premium Cigar intangibles in the prior period



Group Results – Organic Constant Currency Analysis

£ million (unless otherwise indicated)	Half Year ended 31 March 2020	Foreign exchange	Constant currency movement	Half Year ended 31 March 2021	Change	Constant currency change
Organic Tobacco & NGP Net Revenue						
Europe	**1,618**	26	26	**1,670**	3.2%	1.6%
Americas	**1,092**	(58)	97	**1,131**	3.6%	8.8%
Africa, Asia and Australasia	**779**	(8)	(1)	**770**	-1.2%	-0.2%
Total Group	**3,489**	(40)	122	**3,571**	2.4%	3.5%
Organic Tobacco & NGP Adjusted Operating Profit						
Europe	**706**	23	21	**750**	6.2%	3.0%
Americas	**390**	(23)	59	**426**	9.3%	15.1%
Africa, Asia and Australasia	**278**	3	5	**286**	2.9%	1.9%
Total Group	**1,374**	3	85	**1,462**	6.4%	6.2%
Distribution						
Net revenue	**488**	17	28	**533**	9.2%	5.8%
Adjusted operating profit	**95**	4	22	**121**	27.5%	22.9%
Group Adjusted Results						
Organic Adjusted operating profit	**1,460**	7	119	**1,586**	8.6%	8.1%
Adjusted net finance costs	**(210)**	(6)	10	**(206)**	1.8%	4.7%
Organic Adjusted EPS (pence)	**100.0**	0.1	6.9	**107.0**	7.0%	6.9%

Adjusted Performance Measures

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.

This year we also show organic numbers which remove the sold operations of our Premium Cigar Division to show a like for like performance, these measures are termed "organic" and form the basis of the performance commentary. The impact of these changes can be seen in our Adjusted Performance Measures note.

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 programme's projects were delayed into 2021 and so 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 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 will result in one-off costs to reshape the business to support delivery of the new strategy, and will exclude any costs associated with factory footprint rationalisation. The restructuring costs for 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. From 2023 onwards, we do not intend for restructuring costs to be treated as an adjusting item.

Group Earnings Performance

£ million unless otherwise indicated	Reported		Organic Adjusted	
	2021	2020	**2021**	2020
Operating profit				
Tobacco & NGP	**1,560**	880	**1,462**	1,374
Distribution	**74**	54	**121**	95
Eliminations	**3**	(9)	**3**	(9)
Group operating profit	**1,637**	925	**1,586**	1,460
Net finance costs	**414**	(160)	**(206)**	(210)
Share of profit of investments accounted for using the equity method	**8**	20	**4**	(1)
Profit before tax	**2,059**	785	**1,384**	1,249
Tax	**(215)**	(235)	**(318)**	(263)
Non-controlling interest	**(38)**	(25)	**(55)**	(41)
Profit for the period	**1,806**	525	**1,011**	945
Earnings per ordinary share (pence)	**191.2**	55.6	**107.0**	100.0

Reconciliation of Income Statement Adjusted Performance Measures

£ million unless otherwise indicated	Operating profit		Net finance costs		Earnings per share (pence)	
	2021	2020	**2021**	2020	**2021**	2020
Reported	**1,637**	925	**414**	(160)	**191.2**	55.6
Acquisition and disposal costs	**–**	14	**–**	–	**–**	1.5
Profit on disposal of subsidiaries	**(281)**	–	**–**	–	**(30.4)**	–
Amortisation & impairment of acquired intangibles	**211**	436	**–**	–	**21.1**	44.1
Excise tax provision	**(1)**	(23)	**–**	–	**(0.1)**	(2.4)
Fair value adjustment loan receivable	**(17)**	23	**–**	–	**(1.8)**	1.7
Net fair value and exchange movements on derivative financial instruments	**–**	–	**(619)**	(53)	**(74.9)**	(0.5)
Post-employment benefits net financing costs	**–**	–	**(1)**	3	**(0.1)**	0.1
Restructuring costs	**40**	94	**–**	–	**3.3**	7.4
Tax on unrecognised losses	**–**	–	**–**	–	**1.1**	(2.8)
Items above attributable to non-controlling interests	**–**	–	**–**	–	**(1.8)**	(1.7)
Adjusted	**1,589**	1,469	**(206)**	(210)	**107.6**	103.0
Of which:						
Organic	**1,586**	1460	**(206)**	(210)	**107.0**	100.0
Premium Cigar divestment	**3**	9	**0**	0	**0.6**	3.0

Please refer to notes 5 and 12 of the financial statements for a full reconciliation of adjusted performance measures including cash and debt.

Tobacco Revenue Momentum and Reduced NGP Losses

Group net revenue grew 3.5 per cent at constant currency driven by tobacco net revenue up 3.2 per cent and NGP net revenue up 16.0 per cent.

Tobacco volumes fell 3.3 per cent, reflecting continued pressure in duty free and travel retail markets and reduced inventories in the US following consumer and wholesaler demand in March 2020. Market size across a number of our larger markets has continued to benefit from reduced illicit trade and changes to consumer buying patterns as COVID-19 restrictions, particularly on travel, have continued into 2021.

We have begun to stabilise the aggregate market share performance across our five priority markets, reflecting the benefit of a greater focus on performance management in these markets. We also grew market share for the Group as a whole by 30 basis points over the six month period.

Organic tobacco net revenue grew 3.2 per cent driven by price mix of 6.5 per cent, more than offsetting the volume decline of 3.3 per cent. Tobacco price mix has benefited from continued price increases in our priority markets as well as strong product mix performance in the US driven by growth in Backwoods and Dutch cigars helping to offset underlying adverse product mix elsewhere in the business.

The tobacco revenue momentum did not translate into improved profit performance due to two key items: lower stock profit in Australia than the prior year as previously guided (£41 million) and a charge for US state litigation settlement in Minnesota and expected settlement in Texas (£42 million). Tobacco profit was further impacted by the timing impacts of higher US trade inventories in March 2020 (£49 million) to meet COVID-19 related pantry loading demand. Excluding these items totalling £132m, tobacco profit would have been up 4.8 per cent.

NGP revenues rose 16.0 per cent at constant currency. We reduced our NGP operating loss by 62.5 per cent at constant currency to £(83) million, due to the prior year costs of slow moving stock provisions (£75 million) and the impairment of certain NGP intangible assets (£20 million), as well as the benefit of the actions we have taken to target our investment more effectively, reducing costs and resetting trade margins.

Group adjusted operating profit grew 8.1 per cent at constant currency reflecting the reduced losses in NGP and growth in the Distribution segment, where adjusted operating profit grew 39.4 per cent at constant currency.

On a reported basis, Group operating profit increased by 77.0 per cent, materially driven by profit on disposal of the Premium Cigar Division and the impairment of intangibles for the Premium Cigar Division in FY20.

The restructuring charge for the half year of £40 million (2020: £94 million) relates to both the new 2021 Strategic Review Programme and our legacy cost optimisation programme. The total restructuring cash cost in the half year was £46 million (2020: £73 million).

Adjusted net finance costs were marginally lower at £206 million (2020: £210 million). Reported net finance costs showed a gain of £414 million (2020: loss £160 million), which primarily stems from marked to market foreign exchange accounting gains (£534 million) on Euro financial instruments as sterling strengthened 7 per cent against the Euro at the closing balance sheet date..

Our all-in cost of debt increased to 3.7 per cent (2020: 3.3 per cent) reflecting the maturing of lower cost debt instruments in the year. Our interest cover increased to 9.4 times (2020: 8.7 times). We remain fully compliant with all our banking covenants and remain committed to retaining our investment grade ratings.

Our effective adjusted tax rate is 23.1 per cent (2020: 20.7 per cent) and the effective reported tax rate is 10.4 per cent (2020: 29.9 per cent). The increase in the effective adjusted tax rate was due to a less favourable profit mix. The adjusted tax rate is higher than the reported rate due to limited tax arising on the disposal gain on the Premium Cigar business disposal. We expect our effective adjusted tax rate for the year ended 30 September 2021 to be around 23 per cent.

The effective tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets such as Germany and lower rates in other markets such as the UK. The rate is also sensitive to future legislative changes affecting international businesses such as changes arising from the Organisation for Economic Co-operation and Development's (OECD) 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 Group Tax Strategy is publicly available and can be found in the governance section of our corporate website.

Organic adjusted earnings per share was 107.0 pence (2020: 100.0 pence), up 6.9 per cent at constant currency and up 7.0 per cent at actual rates, reflecting reduced NGP losses and higher Distribution profit, partly offset by a higher effective tax rate. Reported earnings per share were up 244 per cent at 191.2 pence (2020: 55.6 pence), mainly due to positive movements in reported finance costs and disposal gains on the sale of our Premium Cigar Division.

The foreign exchange impact on profits and earnings per share at average exchange rates is broadly neutral as sterling weakened against the Euro (3.2 per cent) and Australian Dollar (6.2 per cent) but strengthened against the US Dollar (5.1 per cent).

Cost Optimisation and 2021 Strategic Review Programmes

We undertake major cost restructuring programmes to realise operational efficiencies. We have three restructuring programmes reflected in these results and details of the programmes are set out in the table below.

Our first Cost Optimisation Programme was announced in January 2013 and while the activities were concluded in September 2018, there remain some ongoing cash costs.

The second Cost Optimisation Programme was announced in November 2016 and was expected to have concluded by the end of FY20. However, some of the programme initiatives have been delayed due to the COVID-19 pandemic and are expected to now conclude by the end of FY21, although there will be some ongoing cash costs. The programme is expected to be completed at a cash restructuring cost of c.£650 million, a £100 million reduction against our original estimates.

Cash restructuring costs at the half year from the first programme were £4 million (2020: £9 million) and £27 million (2020: £55 million) for the second programme.

In January, we announced the 2021 Strategic Review Programme to support delivery of our five year strategic plan. A cash cost of £7 million had been incurred as at March 2021, primarily relating to initial concept and design work. £20 million of non-cash impairments have also been allocated relating to market costs as we refine our NGP approach, as well as digital and e-commerce assets.

£m	Charges	Cash costs		Annualised savings	
Restructuring Programme	Cumulative recognised	Anticipated Total	Cumulative to date	Anticipated	Delivered to date
Cost Optimisation Programme 1 (2013)	945	632	563	305	305
Cost Optimisation Programme 2 (2016)	834	650	534	320	310
2021 Strategic Review Programme	27	245-275	7	100-150	-

Cash Flow and Net Debt

In the six months to 31 March 2021, the net cash outflow was £0.8 billion, with a £1.3 billion working capital outflow, £1 billion of dividend payments, and cash tax & interest payments of £0.7 billion offsetting inflows from EBITDA of £1.7 billion and disposal proceeds of £0.6 billion. The increase in cash tax and interest has been driven primarily by tax paid in respect of EU State Aid of £0.1 billion. Cash conversion for the six months to 31 March 2021 was 16 per cent (2020: 20 per cent).

On a 12-month basis, cash conversion remained strong at 122 per cent driven by a net working capital inflow of £0.7 billion. Net cash flow over this period increased by £2.4 billion to £2.5 billion year-on-year, benefiting from improved operating cash flow, the reduced dividend and the proceeds from the sale of Premium Cigar Division. We anticipate cash conversion to remain at c. 80 per cent as we lose the benefit of the duty deferrals in Logista, which benefited our FY20 results.

As expected, in the half year there was a significant working capital outflow of £1.3 billion materially due to movements in Logista where the duty deferral benefit held at the year-end unwound, changes to working capital in Germany where we had different production scheduling compared to year end and higher stock levels across some of our European markets due to the timing of various duty and pricing decisions.

Proceeds of £626 million were received in relation to the disposal of our Premium Cigar Division, which completed in October 2020. A further tranche of deferred proceeds and interest of €256 million was received on 29 April 2021 and further deferred proceeds of €157 million are due over the next 12 months. Dividends of £1.0 billion were £0.4 billion lower than in the same period last year reflecting the impact of rebasing the dividend by one third as announced in May 2020.

Adjusted net debt remained flat from 30 September 2020 at £10.3 billion at actual rates. Reported debt is £0.7 billion higher than adjusted net debt due to the inclusion of lease liabilities (£0.3 billion), the fair value of interest rate derivatives (£0.3 billion) and accrued interest (£0.1 billion). Reported net debt decreased by £0.1 billion since 30 September 2020 to £11.0 billion, with a cash outflow of £0.8 billion offset by positive foreign exchange movements of £0.8 billion and £0.1 billion benefit to accrued interest and changes in fair values of derivatives.

During the half year we repaid a bond of €1 billion and issued a new 12-year €1 billion bond. The denomination of our closing adjusted net debt was split approximately 67 per cent euro and 33 per cent US dollar. During the half year bilateral facilities totalling €0.9 billion were cancelled. As at 31 March 2021, the Group had committed financing in place of £14.5 billion, which comprised 25 per cent bank facilities and 75 per cent raised from capital markets.

Dividends

The Group has paid two dividends of 48.00 pence and 48.01 pence per share in December 2020 and March 2021 respectively, in line with our quarterly dividend payment policy to give shareholders a more regular cash return.

The Board has declared an interim dividend of 42.12 pence per share which will be paid in two payments of 21.06 pence per share on 30 June 2021 and 30 September 2021, with ex-dividend dates of 27 May 2021 and 19 August respectively. This interim dividend is an increase of 1%, or £4 million, in line with the Group's progressive dividend policy.

Principal Risks and Uncertainties

The Group's Risk Management approach is designed to enable people across our business to proactively identify and assess risks on an ongoing basis, and to ensure the effectiveness of the mitigating actions in place. The business is supported by subject matter experts in our second line functions to best ensure the appropriateness of the Group's control frameworks, and related monitoring and reporting.

As part of the approach the Group Crisis Committee has had operational oversight of the resilience of the business for the past 12 months and continues to inform the Board of the potential and actual impacts of COVID-19 on the business. During the pandemic the impacts of COVID-19 have been well managed to ensure continuity of operations, with new working practices having evolved and significant effort provided by our teams across the globe, along with those of our customers, suppliers, and other stakeholders.

The wider socio-economic effects of COVID-19 could impact the commercial environment into the longer-term, and could result in the size of the legitimate nicotine market being negatively impacted by regulatory change, excise tax or increases in other product taxes, and affordability concerns resulting in consumer downtrading or increased consumption of illicit product. Additionally, the impacts on global supply chains, financial markets, and businesses in commercial distress are being actively considered and mitigating actions taken across the business. Given the unprecedented nature of the pandemic and the related variability of outcomes our ability to accurately predict and quantify these risks may be reduced in comparison to pre-pandemic periods.

The Board continues to monitor the principal risks and uncertainties to which the Group is exposed. The risks and the approach to managing the risks remains consistent with that identified on pages 42-61 of our 2020 Annual Report and Accounts, and covers the following areas:

- Market Environment
- Consumer Focus
- Legal and Regulatory compliance
- Product Supply
- People and Organisation
- Financial Management
- Market Execution
- Innovation
- Financial and other reporting
- Capital allocation
- Delivery of transformation projects
- Litigation

The design and implementation of the operating model to support delivery of the new Group strategy, as well as the onboarding of new senior management team members potentially increases the short-term impact of related risks, but does not change the principal risks themselves. This also applies to risks to our product portfolio and market environment resulting from specific direct and indirect regulatory change or proposed change (e.g. restrictions on flavoured products or nicotine levels). The risks and opportunities arising from regulatory change continue to be assessed and managed on an ongoing basis.

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

Liquidity and Going Concern

The Group's policy is to ensure that we always have sufficient capital markets funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. Financing decisions are taken after consideration of the Group's operating cash flows, capital investment programmes, asset/business disposals and dividend payments.

The Directors recognise that the current environment brings uncertainty due to the COVID-19 pandemic; however, over the last year, the Group has effectively managed operations across the world, and has an established mechanism to operate efficiently despite the uncertainty, with little impact to date. Consumer sales have proved to be resilient, and it can be seen that governments are supportive of ongoing distribution. The Directors consider that a one-off discrete event with immediate cash outflow is of greater concern to short term liquidity than any effect from the on-going COVID-19 pandemic. Scenario testing has focused on modelling a number of potential one-off discrete events such as the impact of governments accelerating duty payments. In addition, scenarios of a combination of concurrent events have also been reviewed including reduction of 15 per cent or 30 per cent of ongoing EBITDA (as a result of reduced access to markets or sustained closure of manufacturing or supply chain), an additional level of bad debts and the loss of Imperial's factoring facilities.

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 throughout the period under review to November 2022. The Group believes

this worst-case scenario to be highly unlikely and has a number of mitigating actions available that could be implemented should such a scenario arise.

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

Statement of Directors' Responsibilities

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

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

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

Oliver Tant
Chief Financial Officer

SUMMARY OF KEY FOOTPRINT FINANCIALS & METRICS

FOOTPRINT		Half Year Result		Change	
		2021	2020	Actual	Constant Currency
Volume					
Europe	bn SE	**60.0**	62.7	-4.3%	
Americas	bn SE	**9.4**	9.8	-4.1%	
Africa, Asia and Australasia	bn SE	**41.3**	42.0	-1.6%	
Total Group	bn SE	**110.7**	114.5	-3.3%	
Tobacco Net Revenue					
Europe	£m	**1,615**	1,588	1.7%	0.1%
Americas	£m	**1,098**	1,062	3.4%	8.6%
Africa, Asia and Australasia	£m	**763**	756	0.9%	1.8%
Total Group	£m	**3,476**	3,406	2.1%	3.2%
Tobacco Net Revenue per '000 SE					
Europe	£	**26.94**	25.34	6.3%	4.6%
Americas	£	**117.14**	108.70	7.8%	13.3%
Africa, Asia and Australasia	£	**18.46**	17.99	2.6%	3.5%
Total Group	£	**31.41**	29.76	5.5%	6.7%
Tobacco Price/Mix					
Europe	%			6.0%	4.4%
Americas	%			7.5%	12.7%
Africa, Asia and Australasia	%			2.5%	3.4%
Total Group	%			5.4%	6.5%
NGP Net Revenue					
Europe	£m	**55**	30	83.3%	78.7%
Americas	£m	**33**	30	10.7%	16.0%
Africa, Asia and Australasia	£m	**7**	23	-70.0%	-65.7%
Total Group	£m	**95**	83	14.7%	16.0%
Adjusted Tobacco & NGP Operating Profit					
Europe	£m	**750**	706	6.2%	3.0%
Americas	£m	**426**	390	9.3%	15.1%
Africa, Asia and Australasia	£m	**286**	278	2.9%	1.9%
Total Group	£m	**1,462**	1,374	6.4%	6.2%
Distribution					
Net revenue	£m	**533**	488	9.2%	5.8%
Operating Profit	£m	**121**	95	27.5%	22.9%
Operating Margin	%	**22.7**	19.5	+320 bps	+320 bps

INDEPENDENT REVIEW REPORT TO IMPERIAL BRANDS PLC

Introduction

We have been engaged by the Company to review the condensed consolidated set of financial statements in the Interim Results of Imperial Brands PLC for the six months ended 31 March 2021 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the Interim Results for the six months ended 31 March 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
18 May 2021

CONSOLIDATED INCOME STATEMENT

£ million unless otherwise indicated	Notes	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Revenue	3	**15,568**	14,672	32,562
Duty and similar items		**(7,640)**	(7,107)	(15,962)
Other cost of sales		**(5,068)**	(4,797)	(10,420)
Cost of sales		**(12,708)**	(11,904)	(26,382)
Gross profit		**2,860**	2,768	6,180
Distribution, advertising and selling costs		**(1,097)**	(1,152)	(2,329)
Acquisition and disposal costs		**-**	(14)	(26)
Profit on disposal of subsidiaries	10	**281**	-	-
Amortisation and impairment of acquired intangibles	11	**(211)**	(436)	(523)
Excise tax provision		**1**	23	20
Fair value adjustment of loan receivable	13	**17**	(23)	(62)
Restructuring costs	4	**(40)**	(94)	(205)
Other expenses		**(174)**	(147)	(324)
Administrative and other expenses		**(126)**	(691)	(1,120)
Operating profit	3/5	**1,637**	925	2,731
Investment income		**1,071**	624	770
Finance costs		**(657)**	(784)	(1,380)
Net finance income/(costs)	5	**414**	(160)	(610)
Share of profit of investments accounted for using the equity method		**8**	20	45
Profit before tax		**2,059**	785	2,166
Tax	7	**(215)**	(235)	(608)
Profit for the period		**1,844**	550	1,558
Attributable to:				
Owners of the parent		**1,806**	525	1,495
Non-controlling interests		**38**	25	63
Earnings per ordinary share (pence)				
- Basic	9	**191.2**	55.6	158.3
- Diluted	9	**190.9**	55.5	158.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£ million		**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Profit for the period		**1,844**	550	1,558
Other comprehensive income				
Exchange movements		**(917)**	(140)	151
Exchange movements recycled to profit and loss upon disposal of subsidiaries		**(337)**	-	-
Current tax on hedge of net investments and quasi-equity loans		**(130)**	-	(10)
Deferred tax on hedge of net investments and quasi-equity loans		**2**	-	(80)
Items that may be reclassified to profit and loss		**(1,382)**	(140)	61
Net actuarial gains on retirement benefits	6	**6**	533	277
Current tax relating to net actuarial gains on retirement benefits		**14**	-	-
Deferred tax relating to net actuarial gains on retirement benefits		**(12)**	(135)	(53)
Items that will not be reclassified to profit and loss		**8**	398	224
Other comprehensive (expense)/income for the period, net of tax		**(1,374)**	258	285
Total comprehensive income for the period		**470**	808	1,843
Attributable to:				
Owners of the parent		**476**	784	1,762
Non-controlling interests		**(6)**	24	81
Total comprehensive income for the period		**470**	808	1,843

CONSOLIDATED BALANCE SHEET

£ million	Notes	Unaudited 31 March 2021	Reclassified Unaudited 31 March 2020	Audited 30 September 2020
Non-current assets				
Intangible assets	11	**16,753**	18,246	18,160
Property, plant and equipment		**1,714**	1,937	1,899
Right of use assets		**263**	300	293
Investments accounted for using the equity method		**88**	85	117
Retirement benefit assets	6	**942**	1,065	940
Trade and other receivables		**63**	101	57
Derivative financial instruments	12/13	**480**	816	813
Deferred tax assets		**303**	382	381
State aid tax recoverable		**101**	-	-
		20,707	22,932	22,660
Current assets				
Inventories		**4,575**	5,101	4,065
Trade and other receivables		**2,780**	2,697	2,638
Current tax assets		**219**	95	206
Cash and cash equivalents	12	**765**	773	1,626
Derivative financial instruments	12/13	**86**	186	53
Current assets held for disposal	10	**-**	1,125	1,062
		8,425	9,977	9,650
Total assets		**29,132**	32,909	32,310
Current liabilities				
Borrowings	12	**(1,498)**	(3,418)	(1,442)
Derivative financial instruments	12/13	**(42)**	(51)	(41)
Lease liabilities	12	**(60)**	(61)	(64)
Trade and other payables		**(9,012)**	(9,131)	(10,170)
Current tax liabilities		**(323)**	(250)	(350)
Provisions	4	**(153)**	(156)	(220)
Current liabilities held for disposal	10	**-**	(189)	(38)
		(11,088)	(13,256)	(12,325)
Non-current liabilities				
Borrowings	12	**(9,488)**	(10,719)	(10,210)
Derivative financial instruments	12/13	**(1,037)**	(1,429)	(1,641)
Lease liabilities	12	**(209)**	(241)	(235)
Trade and other payables		**(5)**	(7)	(5)
Deferred tax liabilities		**(911)**	(1,020)	(924)
Retirement benefit liabilities	6	**(1,179)**	(1,103)	(1,256)
Provisions	4	**(187)**	(242)	(196)
		(13,016)	(14,761)	(14,467)
Total liabilities		**(24,104)**	(28,017)	(26,792)
Net assets		**5,028**	4,892	5,518
Equity				
Share capital		**103**	103	103
Share premium and capital redemption		**5,837**	5,837	5,837
Retained earnings		**(1,447)**	(2,779)	(2,364)
Exchange translation reserve		**(43)**	1,113	1,295
Equity attributable to owners of the parent		**4,450**	4,274	4,871
Non-controlling interests		**578**	618	647
Total equity		**5,028**	4,892	5,518

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£ 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
							Unaudited
At 1 October 2020	**103**	**5,837**	**(2,364)**	**1,295**	**4,871**	**647**	**5,518**
Profit for the period	**-**	**-**	**1,806**	**-**	**1,806**	**38**	**1,844**
Exchange movements on assets	**-**	**-**	**-**	**(1,316)**	**(1,316)**	**(44)**	**(1,360)**
Exchange movements on net investment hedges	**-**	**-**	**-**	**600**	**600**	**-**	**600**
Exchange movements on quasi equity loans	**-**	**-**	**-**	**(157)**	**(157)**	**-**	**(157)**
Exchange movements recycled to profit and loss upon disposal of subsidiaries	**-**	**-**	**-**	**(337)**	**(337)**	**-**	**(337)**
Current tax on hedge of net investments and quasi-equity loans	**-**	**-**	**-**	**(130)**	**(130)**	**-**	**(130)**
Deferred tax on hedge of net investments and quasi-equity loans	**-**	**-**	**-**	**2**	**2**	**-**	**2**
Net actuarial gains on retirement benefits	**-**	**-**	**6**	**-**	**6**	**-**	**6**
Current tax relating to net actuarial gains on retirement benefits	**-**	**-**	**14**	**-**	**14**	**-**	**14**
Deferred tax relating to net actuarial gains on retirement benefits	**-**	**-**	**(12)**	**-**	**(12)**	**-**	**(12)**
Other comprehensive income/(expense)	**-**	**-**	**8**	**(1,338)**	**(1,330)**	**(44)**	**(1,374)**
Total comprehensive income/(expense)	**-**	**-**	**1,814**	**(1,338)**	**476**	**(6)**	**470**
Transactions with owners							
Costs of employees' services compensated by share schemes	**-**	**-**	**9**	**-**	**9**	**-**	**9**
Dividends paid	**-**	**-**	**(906)**	**-**	**(906)**	**(63)**	**(969)**
At 31 March 2021	**103**	**5,837**	**(1,447)**	**(43)**	**4,450**	**578**	**5,028**
At 1 October 2019	103	5,837	(2,255)	1,252	4,937	647	5,584
Profit for the period	-	-	525	-	525	25	550
Exchange movements	-	-	-	(139)	(139)	(1)	(140)
Net actuarial gains on retirement benefits	-	-	533	-	533	-	533
Deferred tax relating to net actuarial gains on retirement benefits	-	-	(135)	-	(135)	-	(135)
Other comprehensive income/(expense)	-	-	398	(139)	259	(1)	258
Total comprehensive income/(expense)	-	-	923	(139)	784	24	808
Transactions with owners							
Costs of employees' services compensated by share schemes	-	-	9	-	9	-	9
Changes in non-controlling interests	-	-	(5)	-	(5)	5	-
Current tax on share-based payments	-	-	1	-	1	-	1
Repurchase of shares	-	-	(92)	-	(92)	-	(92)
Dividends paid	-	-	(1,360)	-	(1,360)	(58)	(1,418)
At 31 March 2020	103	5,837	(2,779)	1,113	4,274	618	4,892

CONSOLIDATED CASHFLOW STATEMENT

£ million	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Cash flows from operating activities			
Operating profit	**1,637**	925	2,731
Dividends received from investments accounted for under the equity method	**4**	23	43
Depreciation, amortisation and impairment	**372**	592	910
Profit on disposal of non-current assets	**2**	-	(2)
Profit on disposal of subsidiary	**(281)**	-	-
Post-employment benefits	**(73)**	(88)	(88)
Costs of employees' services compensated by share schemes	**11**	9	20
Fair value adjustment of loan receivable	**(17)**	23	63
Movement in provisions	**(52)**	(129)	(121)
Operating cash flows before movement in working capital	**1,603**	1,355	3,556
(Increase)/decrease in inventories	**(720)**	(1,108)	67
(Increase)/decrease in trade and other receivables	**(28)**	264	241
(Decrease)/increase in trade and other payables	**(583)**	(130)	734
Movement in working capital	**(1,331)**	(974)	1,042
Tax paid	**(431)**	(254)	(568)
Net cash flows (used in)/generated from operating activities	**(159)**	127	4,030
Cash flows from investing activities			
Interest received	**-**	6	9
Loan to third parties	**-**	-	(3)
Proceeds from the sale of non-current assets	**30**	6	28
Net proceeds from sale of subsidiaries	**626**	-	-
Deposit received from sale of asset held for sale	**-**	-	83
Purchase of non-current assets	**(91)**	(171)	(302)
Purchases of shares	**-**	(3)	-
Purchase of brands and operations	**-**	(143)	(146)
Net cash generated from/(used in) investing activities	**565**	(305)	(331)
Cash flows from financing activities			
Interest paid	**(255)**	(318)	(429)
Lease liabilities paid	**(38)**	(37)	(72)
Increase in borrowings	**856**	1,239	1,240
Repayment of borrowings	**(899)**	(639)	(3,096)
Cash flows relating to derivative financial instruments	**14**	38	(23)
Repurchase of shares	**-**	(92)	(92)
Dividends paid to non-controlling interests	**(63)**	(58)	(85)
Dividends paid to owners of the parent	**(906)**	(1,360)	(1,753)
Net cash used in financing activities	**(1,291)**	(1,227)	(4,310)
Net decrease in cash and cash equivalents	**(885)**	(1,405)	(611)
Cash and cash equivalents at the start of period	**1,626**	2,286	2,286
Effect of foreign exchange rates on cash and cash equivalents	**24**	(75)	13
Transferred to held for disposal	**-**	(33)	(62)
Cash and cash equivalents at the end of period	**765**	773	1,626

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial information comprises the unaudited results for the six months ended 31 March 2021 and 31 March 2020, together with the audited results for the year ended 30 September 2020.

The comparative information shown for the year ended 30 September 2020 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006, and does not reflect all of the information contained in the Group's published financial statements for that year. The Auditors' Report on those statements was unqualified and did not contain any statements under section 498 of the Companies Act 2006. The financial statements for the year ended 30 September 2020 were approved by the Board of Directors on 17 November 2020 and have been filed with the Registrar of Companies.

This condensed set of financial statements for the six months ended 31 March 2021 has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed set of financial statements for the six months ended 31 March 2021 should be read in conjunction with the annual financial statements for the year ended 30 September 2020 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Group's principal accounting policies and methods of computation used in preparing this information are the same as those applied in the financial statements for the year ended 30 September 2020, which are available on our website www.imperialbrandsplc.com.

BASIS FOR GOING CONCERN

The financial statements have been prepared under the historical cost convention except where fair value measurement is required under IFRS as described below in the accounting policies on financial instruments, and on a going concern basis. The Group's policy is to ensure that we always have sufficient capital markets funding and committed bank facilities in place to meet foreseeable peak borrowing requirements.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios that may affect the business. The Directors recognise that the current environment brings uncertainty due to the COVID-19 pandemic; however, over the last year, the Group has effectively managed operations across the world, and has an established mechanism to operate efficiently despite the uncertainty, with little impact to date. The Directors consider that a one-off discrete event with immediate cash outflow is of greater concern to short term liquidity than any effect from the on-going COVID-19 pandemic. 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 throughout the period under review to November 2022. The Group believes this worst-case scenario to be highly unlikely and has a number of mitigating actions available that could be implemented should such a scenario arise.

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

NEW ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

For the six months ended 31 March 2021 and the year ended 30 September 2021, the Group will continue to apply international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRS, issued by the IASB and adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. From 1 October 2021, as a result of the UK leaving the European Union, the Group will prepare the consolidated financial statements in accordance with applicable international accounting standards, issued by the IASB or IFRIC and endorsed by for use in the UK, referred to as 'UK-adopted IFRS'.

The following amendments to the accounting standards, issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC), have been adopted by the Group from 1 October 2020 with no impact on the group's consolidated results, financial position or disclosures:

- Amendments to References to the Conceptual Framework in IFRS
- Amendments to IFRS 3 - Definition of a Business
- Amendments to IAS 1 and IAS 8 - Definition of Material
- Amendments to IFRS 16 - Covid-19 - Related Rent Concessions
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform (phase 1)

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.

RECLASSIFICATION

In the financial statements for the year ended 30 September 2020, the Group reclassified certain current and 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. Comparatives for the 6 months ended 31 March 2020 have been restated accordingly. The effect of the reclassification as at 31 March 2020 is a decrease in deferred tax assets and liabilities by £225m and a decrease in current tax assets and liabilities by £108m.

USE OF ADJUSTED MEASURES

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

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

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

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

The principal adjustments made to reported profits are as follows:

ACQUISITION AND DISPOSAL COSTS / PROFIT ON DISPOSAL OF SUBSIDIARIES

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

AMORTISATION AND IMPAIRMENT OF ACQUIRED INTANGIBLES

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

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

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

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

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

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

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

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

PRESENTATION OF AUXLY

In view of the increasing significance of the movement in the fair value of loan receivables associated with the Auxly investment the Group discloses the fair value movement separately on the face of the income statement.

RESTRUCTURING COSTS

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

POST-EMPLOYMENT BENEFITS NET FINANCE COST

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

TAX MATTERS

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

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

OTHER NON-GAAP MEASURES USED BY MANAGEMENT

NET REVENUE

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

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

DISTRIBUTION NET REVENUE

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

ADJUSTED OPERATING CASH

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

ADJUSTED NET DEBT

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

ORGANIC

To aid comparison of performance between periods, the Group uses the term 'organic' in all periods reported to exclude the impact of the Premium Cigar divestment, which completed on 29 October 2020. The organic performance comparison excludes the contribution of the Premium Cigar divestment in all periods reported. The splits between organic and Premium Cigar divestment measures for the year ended 30 September 2020, presented in Notes 3, 5 and 9, are unaudited.

CASH CONVERSION

The Group uses cash conversion as a key metric for assessing underlying cash performance. Cash Conversion is calculated as cash flow from operations pre-restructuring and before interest and tax payments, less net capital expenditure relating to property, plant and equipment, software and intellectual property rights as a percentage of adjusted operating profit.

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 assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed in note 2 of the financial statements for the year ended 30 September 2020.

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

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

CONTROL OF LOGISTA

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

3. SEGMENT INFORMATION

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

The function of Chief Operating Decision Maker (defined in IFRS 8), which is to review performance and allocate resources, is performed by the Board and the 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.

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

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

Americas – United States and Canada.

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

REVENUE

	Unaudited		Unaudited		Audited	
	6 months ended 31 March 2021		6 months ended 31 March 2020		Year ended 30 September 2020	
£ million	**Total revenue**	**External revenue**	Total revenue	External revenue	Total Revenue	External revenue
Tobacco & NGP						
Europe	**6,873**	**6,543**	6,390	6,044	14,395	13,716
Americas	**1,512**	**1,512**	1,486	1,486	3,371	3,371
Africa, Asia & Australasia	**2,859**	**2,859**	2,836	2,836	6,207	6,207
Total Tobacco & NGP	**11,244**	**10,914**	10,712	10,366	23,973	23,294
Distribution	**4,654**	**4,654**	4,306	4,306	9,268	9,268
Eliminations	**(330)**	**-**	(346)	-	(679)	-
Total Group	**15,568**	**15,568**	14,672	14,672	32,562	32,562

TOBACCO & NGP

£ million unless otherwise indicated	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Revenue	**11,244**	10,712	23,973
Net revenue	**3,592**	3,592	7,985
Operating profit	**1,560**	880	2,587
Adjusted operating profit	**1,465**	1,383	3,288
Adjusted operating margin %	**40.8**	38.5	41.2

DISTRIBUTION

£ million unless otherwise indicated	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Revenue	**4,654**	4,306	9,268
Distribution net revenue	**533**	488	1,015
Operating profit	**74**	54	131
Adjusted operating profit	**121**	95	226
Adjusted distribution margin %	**22.7**	19.5	22.3

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

£ million	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Revenue	**11,244**	10,712	23,973
Duty and similar items	**(7,640)**	(7,107)	(15,962)
Sale of peripheral products	**(12)**	(13)	(26)
Net revenue	**3,592**	3,592	7,985

TOBACCO & NGP NET REVENUE

£ million	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Europe	**1,670**	1,619	3,569
Americas	**1,131**	1,091	2,480
Africa, Asia & Australasia	**791**	882	1,936
Total Tobacco & NGP	**3,592**	3,592	7,985

PREMIUM CIGAR DIVESTMENT & ORGANIC TOBACCO & NGP NET REVENUE

£ million	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Organic Tobacco & NGP Net Revenue	**3,571**	3,489	7,738
Premium Cigar divestment Net Revenue	**21**	103	247
Total Tobacco & NGP	**3,592**	3,592	7,985

ADJUSTED OPERATING PROFIT AND RECONCILIATION TO PROFIT BEFORE TAX

£ million	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Tobacco & NGP			
Europe	**750**	706	1,582
Americas	**426**	390	1,032
Africa, Asia & Australasia	**289**	287	674
Total Tobacco & NGP	**1,465**	1,383	3,288
Distribution	**121**	95	226
Eliminations	**3**	(9)	13
Adjusted operating profit	**1,589**	1,469	3,527
Acquisition and disposal costs - Tobacco & NGP	**-**	(14)	(26)
Profit on disposal of subsidiaries - Tobacco & NGP	**281**	-	-
Amortisation and impairment of acquired intangibles - Tobacco & NGP	**(168)**	(395)	(438)
Amortisation of acquired intangibles - Distribution	**(43)**	(41)	(85)
Excise tax provision – Tobacco & NGP	**1**	23	20
Fair value adjustment of loan receivable - Tobacco & NGP	**17**	(23)	(62)
Restructuring costs	**(40)**	(94)	(205)
Operating profit	**1,637**	925	2,731
Net finance costs	**414**	(160)	(610)
Share of profit of investments accounted for using the equity method	**8**	20	45
Profit before tax	**2,059**	785	2,166

4. RESTRUCTURING COSTS AND PROVISIONS

RESTRUCTURING COSTS

£ million	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Employment related	**5**	70	103
Asset impairments	**24**	7	58
Other charges	**11**	17	44
	40	94	205

Restructuring costs analysed by workstream:

£ million	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Cost optimisation programme	**8**	87	187
2021 strategic review programme	**27**	-	-
Other restructuring activities	**5**	7	18
	40	94	205

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

Cost optimisation programme

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

In the 6 months to 31 March 2021 the cash cost of the cost optimisation programme phase I was £4 million (2020: £9 million) and of phase II was £27 million (2020: £55 million).

Phase I was concluded at the end of 2018 and has delivered savings of £305 million per annum from September 2018.
Phase II has had a cash implementation cost to date of £534 million, and has delivered savings of £310 million per annum.

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.

2021 strategic review programme

In January 2021, the Group announced the results of a strategic review programme including an associated and specific time-bound restructuring programme. Restructuring costs in the period related to the 2021 strategic review programme include the impairment of £20 million of intangible assets associated with the exit from NGP activities in a number of markets. Further restructuring costs may arise as the 2021 strategic review programme progresses and is implemented. In the 6 months to 31 March 2021 the cash cost of the 2021 strategic review programme was £7 million.

Other restructuring activities

In the 6 months to 31 March 2021 non-cost optimisation cash cost was £8 million.

PROVISIONS

			Unaudited
			31 March 2021
£ million	**Restructuring**	**Other**	**Total**
At 1 October 2020	**253**	**163**	**416**
Additional provisions charged to the consolidated income statement	**4**	**34**	**38**
Amounts used	**(41)**	**(27)**	**(68)**
Unused amounts reversed	**(18)**	**(6)**	**(24)**
Exchange movements	**(13)**	**(9)**	**(22)**
At 31 March 2021	**185**	**155**	**340**
Current	**90**	**63**	**153**
Non-current	**95**	**92**	**187**
	185	**155**	**340**

Analysed as:

	Unaudited	Unaudited	Audited
£ million	**31 March 2021**	31 March 2020	30 September 2020
Current	**153**	156	220
Non-current	**187**	242	196
	340	398	416

Restructuring provisions relate mainly to our cost optimisation programme. The restructuring provision is split between Cost Optimisation Programme II of £104 million, Cost Optimisation Programme I of £70 million and other restructuring programmes of £11 million. Within the Cost Optimisation Programme provisions there is £13 million related to costs of consolidating the manufacturing capacity within the Group and £93 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 £26 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	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Operating profit		**1,637**	925	2,731
Acquisition and disposal costs		**-**	14	26
Profit on disposal of subsidiaries		**(281)**	-	-
Amortisation and impairment of acquired intangibles		**211**	436	523
Excise tax provision		**(1)**	(23)	(20)
Fair value adjustment of loan receivable		**(17)**	23	62
Restructuring costs	4	**40**	94	205
Adjusted operating profit		**1,589**	1,469	3,527
Organic adjusted operating profit		**1,586**	1,460	3,496
Premium Cigar divestment adjusted operating profit		**3**	9	31
Adjusted operating profit		**1,589**	1,469	3,527

Amortisation and impairment of acquired intangibles, profit on disposal of subsidiaries, acquisition and disposal costs and restructuring costs are discussed in further detail in note 1.

RECONCILIATION FROM REPORTED NET FINANCE COSTS TO ADJUSTED NET FINANCE COSTS

£ million	Notes	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Reported net finance income/(costs)		**414**	(160)	(610)
Fair value gains on derivative financial instruments		**(487)**	(569)	(661)
Fair value losses on derivative financial instruments		**402**	438	581
Exchange (gains)/losses on financing activities		**(534)**	78	256
Net fair value and exchange (gains)/losses on financial instruments		**(619)**	(53)	176
Interest income on net defined benefit assets		**(45)**	(49)	(99)
Interest cost on net defined benefit liabilities		**44**	52	104
Post-employment benefits net financing cost		**(1)**	3	5
Adjusted net finance costs		**(206)**	(210)	(429)
Comprising				
Interest on bank deposits		**5**	6	10
Interest on lease liabilities		**(4)**	-	(7)
Interest on bank and other loans		**(207)**	(216)	(432)
Adjusted net finance costs		**(206)**	(210)	(429)

CASH CONVERSION CALCULATION

£ million	Notes	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Net cash flow from operating activities		**(159)**	127	4,030
Tax		**431**	254	568
Net capital expenditure		**(61)**	(165)	(274)
Restructuring spend		**46**	73	145
Cash flow post capital expenditure pre interest and tax		**257**	289	4,469
Adjusted operating profit		**1,589**	1,469	3,527
Cash Conversion		**16 %**	20 %	127 %

6. RETIREMENT BENEFIT SCHEMES

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

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

	Unaudited 31 March 2021	Unaudited 31 March 2020	Audited 30 September 2020
Retirement benefit assets	942	1,065	940
Retirement benefit liabilities	(1,179)	(1,103)	(1,256)
Net retirement benefit liabilities	(237)	(38)	(316)

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

KEY FIGURES AND ASSUMPTIONS USED FOR MAJOR PLANS

	Unaudited 31 March 2021			Unaudited 31 March 2020		
£ million unless otherwise stated	**ITPF**	**RCPP**	**ITGBH**	ITPF	RCPP	ITGBH
Defined benefit obligation (DBO)	**3,303**	**743**	**387**	3,135	618	439
Fair value of scheme assets	**(4,188)**	**-**	**(370)**	(4,142)	-	(397)
Net defined benefit (asset)/liability	**(885)**	**743**	**17**	(1,007)	618	42
Principal actuarial assumptions used (% per annum)						
Discount rate	**2.1**	**1.0**	**3.0**	2.5	1.8	3.3
Future salary increases	**3.1**	**2.8**	**n/a**	2.5	2.3	n/a
Future pension increases	**3.1**	**1.7**	**n/a**	2.5	1.2	n/a
Inflation	**3.1**	**1.7**	**2.5**	2.5	1.2	2.5

£ million unless otherwise stated	ITPF	RCPP	Audited 30 September 2020 ITGBH
Defined benefit obligation (DBO)	3,516	764	434
Fair value of scheme assets	(4,395)	-	(398)
Net defined benefit (asset)/liability	(879)	764	36
Principal actuarial assumptions used (% per annum)			
Discount rate	1.7	0.9	2.8
Future salary increases	2.9	2.4	n/a
Future pension increases	2.9	1.3	n/a
Inflation	2.9	1.3	2.5

7. TAX

RECONCILIATION FROM REPORTED TAX TO ADJUSTED TAX

Reported tax for the six months ended 31 March 2021 has been calculated on the basis of a forecast effective rate for the year ended 30 September 2021.

£ million	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Reported tax	**215**	235	608
Deferred tax on amortisation and impairment of acquired intangibles	**12**	19	57
Current tax on excise tax provision	**-**	-	(4)
Tax on net fair value and exchange movements on financial instruments	**88**	(48)	(63)
Tax on post-employment benefits net financing cost	**-**	2	1
Tax on restructuring costs	**9**	24	31
Tax on revaluation of investment	**-**	7	-
Tax on disposal of subsidiaries	**6**	-	(19)
Previously unrecognised tax credits	**-**	-	67
Uncertain tax positions	**-**	-	(77)
Tax on unrecognised losses	**(10)**	26	41
Adjusted tax charge	**320**	265	642

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 £231 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 of £231 million (2020: £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 a £41 million (2020: £44 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 based on advice received the Group believes that it has no liability in respect of 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 £101 million was reported. In February 2021 a charging notice for £101 million was issued to the Group by HMRC and has now been paid. Based on discussions with HMRC, the Group does not expect to receive any further charging notices, although HMRC has yet to issue a formal communication in that respect. Advice to date is that our appeal and that of the UK government against the Commission's decision should ultimately be successful so a current tax receivable of £101 million has been recognised as a non-current asset.

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 £850 million (2020: £800 million). The Group holds a provision of £295 million (2020: £273 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. In 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 circa £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. In November 2020, HMRC issued a final DPT notice, which has now been paid. On conclusion of the transfer pricing discussions, an appropriate refund is 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.

8. DIVIDENDS

DISTRIBUTIONS TO ORDINARY EQUITY HOLDERS

	Unaudited	Audited	Audited
£ million	**2021**	2020	2019
Paid interim of nil pence per share (2020: 89.70 pence, 2019: 134.56 pence)			
- Paid June 2019	-	-	298
- Paid September 2019	-	-	298
- Paid December 2019	-	-	680
- Paid June 2020	-	197	-
- Paid September 2020	-	197	-
- Paid December 2020	-	453	-
Interim dividend paid	-	847	1,276
Proposed interim of 42.12 pence per share (2020: nil, 2019: nil)			
- To be paid June 2021	199	-	-
- To be paid September 2021	199	-	-
Interim dividend proposed	398	-	-
Paid final of nil pence per share (2020: 48.01 pence, 2019: 72.01 pence)			
- Paid March 2020	-	-	679
- Paid March 2021	-	453	-
Final dividend	-	453	679
Total ordinary share dividends of 42.12 pence per share (2020: 137.71 pence, 2019: 206.57 pence)	398	1,300	1,955

The declared interim dividend for 2021 amounts to a total dividend of £398 million based on the number of shares ranking for dividend at 31 March 2021. This will be paid in two stages, one in June 2021 and one in September 2021.

The dividend paid during the half year to 31 March 2021 is £906 million (2020: £1,360 million).

9. EARNINGS PER SHARE

£ million	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Earnings: basic and diluted – attributable to owners of the Parent Company	**1,806**	525	1,495
Millions of shares			
Weighted average number of shares:			
Shares for basic earnings per share	**944.6**	944.6	944.4
Potentially dilutive share options	**1.4**	1.8	1.4
Shares for diluted earnings per share	**946.0**	946.4	945.8
Pence			
Basic earnings per share	**191.2**	55.6	158.3
Diluted earnings per share	**190.9**	55.5	158.1

RECONCILIATION FROM REPORTED TO ADJUSTED EARNINGS AND EARNINGS PER SHARE

	Unaudited 6 months ended 31 March 2021		Unaudited 6 months ended 31 March 2020		Audited Year ended 30 September 2020	
£ million unless otherwise indicated	**Earnings per share (pence)**	**Earnings net of tax**	Earnings per share (pence)	Earnings net of tax	Earnings per share (pence)	Earnings net of tax
Reported basic	**191.2**	**1,806**	55.6	525	158.3	1,495
Acquisition and disposal costs	**-**	**-**	1.5	14	2.8	26
Profit on disposal of subsidiaries	**(30.4)**	**(287)**	-	-	2.0	19
Amortisation and impairment of acquired intangibles	**21.1**	**199**	44.1	417	49.2	466
Excise tax provision	**(0.1)**	**(1)**	(2.4)	(23)	(1.7)	(16)
Fair value adjustment loan receivable	**(1.8)**	**(17)**	1.7	16	6.6	62
Net fair value and exchange movements on financial instruments	**(74.9)**	**(707)**	(0.5)	(5)	25.3	239
Post-employment benefits net financing cost	**(0.1)**	**(1)**	0.1	1	0.4	4
Restructuring costs	**3.3**	**31**	7.4	70	18.4	174
Previously unrecognised tax credits	**-**	**-**	-	-	(7.1)	(67)
Uncertain tax positions	**-**	**-**	-	-	8.2	77
Tax on unrecognised losses	**1.1**	**10**	(2.8)	(26)	(4.3)	(41)
Adjustments above attributable to non-controlling interests	**(1.8)**	**(17)**	(1.7)	(16)	(3.7)	(35)
Adjusted	**107.6**	**1,016**	103.0	973	254.4	2,403
Adjusted diluted	**107.5**	**1,016**	102.8	973	254.1	2,403
Organic adjusted	**107.0**	**1,011**	100.0	945	247.2	2,335
Premium Cigar divestment adjusted	**0.6**	**5**	3.0	28	7.2	68
Adjusted	**107.6**	**1,016**	103.0	973	254.4	2,403
Organic adjusted diluted	**106.9**	**1,011**	99.8	945	246.9	2,335
Premium Cigar divestment adjusted diluted	**0.6**	**5**	3.0	28	7.2	68
Adjusted diluted	**107.5**	**1,016**	102.8	973	254.1	2,403

10. DISPOSAL OF PREMIUM CIGAR DIVISION

On 27 April 2020 the Group announced that it had agreed the sale of the Premium Cigar Division ("the Division"). The total cash receipts expected for the transaction are €1,198 million (including the La Romana disposal - see below). A non-refundable deposit of €92 million was received on 28 September 2020 and a further non-refundable deposit of €86 million was receipted on 6 October 2020. The share sale element of the sale of the Division completed on 29 October 2020 and €607 million of sales consideration was received on that date including settlement in respect of a true up of cross perimeter inter-company loan balances. A further €256 million was received on 29 April 2021 and €88 million is due to be received on 29 October 2021.

The profit arising on disposal of the Division was £281 million and includes £337 million of foreign exchange gains that had previously been recognised in the foreign exchange reserve and that were recycled to the income statement on completion of the transaction.

The sale of the La Romana factory in the Dominican Republic is due to complete in the first half of the Group's 2022 financial year when it is expected that €69 million of sales consideration will be received subject to a true up in respect of inventory values. The carrying value of the net assets of the La Romana factory total £39 million. This sale of the La Romana factory does not yet meet the recognition criteria for an asset held for sale as there is ongoing work to separate the factory for disposal. The work is expected to complete by the forecast sale date. On completion the factory will be reclassified as an asset held for sale.

ASSET HELD FOR SALE

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

£ million	**Unaudited 31 March 2021**	Unaudited 31 March 2020	Audited September 2020
Non-current assets			
Intangible assets	-	89	101
Property, plant and equipment	-	15	17
Investments accounted for using the equity method	-	533	584
Trade and other receivables	-	29	35
Right of use leased assets	-	7	7
Deferred tax assets	-	7	10
	-	680	754
Current assets			
Inventories	-	194	166
Trade and other receivables	-	204	67
Cash and cash equivalents	-	47	75
	-	445	308
Total Assets	-	1,125	1,062
Current liabilities			
Trade and other payables	-	(174)	(35)
Provisions	-	(4)	(3)
Lease liabilities	-	(1)	-
	-	(189)	(38)
Total liabilities	-	(189)	(38)
Net assets	-	936	1,024

11. INTANGIBLE ASSETS

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indicators that impairment may have arisen. Goodwill is allocated to groups of cash-generating units (CGUs) and is monitored at a Cash Generating Unit Grouping (CGUG) level. The last goodwill impairment test was conducted as at 30 September 2020. At present there is a significant level of headroom for the recoverability of goodwill within each CGUG. The next goodwill impairment review will take place on or before the 30 September 2021. We have reviewed goodwill and indefinite life intangible assets for indicators of impairment as required by IAS 36. Following a review of the recoverable values of other intangible assets not currently subject to amortisation, certain intangible assets with a carrying value of £20 million (2020: £19 million) were identified as not being recoverable. An impairment charge for their full carrying value was therefore recognised. We have not identified any other indicators and therefore there is no requirement to undertake a full impairment test at this stage.

12. NET DEBT

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

£ million	Current borrowings	Lease creditors	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
							Unaudited
At 1 October 2020	**(1,442)**	**(299)**	**(10,210)**	**(816)**	**(12,767)**	**1,626**	**(11,141)**
Reallocation of current borrowings from non-current borrowings	**(1,055)**	**-**	**1,055**	**-**	**-**	**-**	**-**
Cash flow	**899**	**38**	**(856)**	**(14)**	**67**	**(885)**	**(818)**
Change in accrued interest	**56**	**(4)**	**17**	**2**	**71**	**-**	**71**
Change in fair values	**-**	**-**	**-**	**85**	**85**	**-**	**85**
New leases and modifications	**-**	**(20)**	**-**	**-**	**(20)**	**-**	**(20)**
Exchange movements	**44**	**16**	**506**	**230**	**796**	**24**	**820**
At 31 March 2021	**(1,498)**	**(269)**	**(9,488)**	**(513)**	**(11,768)**	**765**	**(11,003)**

£ million	Current borrowings	Lease creditors	Non-current borrowings	Derivative financial instruments	Liabilities from financing activities	Cash and cash equivalents	Total
							Unaudited
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	(897)	-	897	-	-	-	-
Cash flow	(598)	37	(2)	(38)	(601)	(1,405)	(2,006)
Change in accrued interest	37	(5)	58	14	104	-	104
Change in fair values	-	-	-	131	131	-	131
New leases and modifications	-	(11)	-	-	(11)	-	(11)
Exchange movements	(23)	3	25	37	42	(75)	(33)
Transferred to asset held for disposal (note 10)	-	-	-	-	-	(33)	(33)
At 31 March 2020	(3,418)	(302)	(10,719)	(478)	(14,917)	773	(14,144)

ADJUSTED NET DEBT

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

£ million	**Unaudited 31 March 2021**	Unaudited 31 March 2020	Audited 30 September 2020
Reported net debt	**(11,003)**	(14,144)	(11,141)
Accrued interest	**81**	53	156
Lease liabilities	**269**	302	299
Fair value of interest rate derivatives	**325**	313	387
Adjusted net debt	**(10,328)**	(13,476)	(10,299)

The fair value of bonds is estimated to be £11,668 million (2020 6 months: £12,701 million) and has been determined by reference to market prices at the balance sheet date. The carrying value of bonds is £10,926 million (2020 6 months: £12,621 million). The fair value of all other borrowings is considered to be equal to their carrying amount.

13. FINANCIAL INSTRUMENTS

The table below sets out the Group's accounting classification of each class of financial assets and liabilities:

					Unaudited 31 March 2021	
£ million	**Fair value through income statement**	**Fair value through comprehensive income**	**Assets and liabilities at amortised cost**	**Total**	**Current**	**Non-current**
Trade and other receivables	**38**	**-**	**2,648**	**2,686**	**2,628**	**58**
Cash and cash equivalents	**-**	**-**	**765**	**765**	**765**	**-**
Derivatives	**566**	**-**	**-**	**566**	**86**	**480**
Total financial assets	**604**	**-**	**3,413**	**4,017**	**3,479**	**538**
Borrowings	**-**	**-**	**(10,986)**	**(10,986)**	**(1,498)**	**(9,488)**
Trade and other payables	**-**	**-**	**(8,319)**	**(8,319)**	**(8,319)**	**-**
Derivatives	**(886)**	**(193)**	**-**	**(1,079)**	**(42)**	**(1,037)**
Lease liabilities	**-**	**-**	**(269)**	**(269)**	**(60)**	**(209)**
Total financial liabilities	**(886)**	**(193)**	**(19,574)**	**(20,653)**	**(9,919)**	**(10,734)**
Total net financial liabilities	**(282)**	**(193)**	**(16,161)**	**(16,636)**	**(6,440)**	**(10,196)**

					Unaudited 31 March 2020	
£ million	Fair value through income statement	Fair value through comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-current
Trade and other receivables	14	-	2,495	2,509	2,428	81
Cash and cash equivalents	-	-	773	773	773	-
Derivatives	1,002	-	-	1,002	186	816
Total financial assets	1,016	-	3,268	4,284	3,387	897
Borrowings	-	-	(14,137)	(14,137)	(3,418)	(10,719)
Trade and other payables	-	-	(8,284)	(8,284)	(8,284)	-
Derivatives	(1,142)	(338)	-	(1,480)	(51)	(1,429)
Lease liabilities	-	-	(302)	(302)	(61)	(241)
Total financial liabilities	(1,142)	(338)	(22,723)	(24,203)	(11,814)	(12,389)
Total net financial liabilities	(126)	(338)	(19,455)	(19,919)	(8,427)	(11,492)

£ million	Fair value through income statement	Fair value through comprehensive income	Assets and liabilities at amortised cost	Total	Current	Non-current
						Audited 30 September 2020
Trade and other receivables	22	-	2,502	2,524	2,476	48
Cash and cash equivalents	-	-	1,626	1,626	1,626	-
Derivatives	866	-	-	866	53	813
Total financial assets	888	-	4,128	5,016	4,155	861
Borrowings	-	-	(11,652)	(11,652)	(1,442)	(10,210)
Trade and other payables	-	-	(9,387)	(9,387)	(9,387)	-
Derivatives	(1,272)	(410)	-	(1,682)	(41)	(1,641)
Lease liabilities	-	-	(299)	(299)	(64)	(235)
Total financial liabilities	(1,272)	(410)	(21,338)	(23,020)	(10,934)	(12,086)
Total net financial (liabilities)	(384)	(410)	(17,210)	(18,004)	(6,779)	(11,225)

Trade and other receivables excludes prepayments and Trade and other payables excludes accruals.

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

£ million	**Unaudited** **31 March 2021**	Unaudited 31 March 2020	Audited 30 September 2020
Assets			
Interest rate swaps	**541**	833	854
Forward foreign currency contracts	**21**	150	9
Cross-currency swaps	**4**	19	3
Total carrying value of derivative financial assets	**566**	1,002	866
Liabilities			
Interest rate swaps	**(862)**	(1,151)	(1,235)
Forward foreign currency contracts	**(3)**	(25)	(10)
Cross-currency swaps	**(261)**	(341)	(484)
Carrying value of derivative financial liabilities before collateral	**(1,126)**	(1,517)	(1,729)
Collateral [1]	**47**	37	47
Total carrying value of derivative financial liabilities	**(1,079)**	(1,480)	(1,682)
Total carrying value of derivative financial instruments	**(513)**	(478)	(816)
Analysed as:			
Interest rate swaps	**(321)**	(318)	(381)
Forward foreign currency contracts	**18**	125	(1)
Cross-currency swaps	**(257)**	(322)	(481)
Collateral [1]	**47**	37	47
Total carrying value of derivative financial instruments	**(513)**	(478)	(816)

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

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments and the investment in Auxly Cannabis Group which are carried at fair value. Derivative 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 (Level 2 classification hierarchy per IFRS 7). 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 £21 million and would have been a £46 million reduction without considering the early termination options. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance and the Auxly investment, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount.

AUXLY CANNABIS GROUP INC.

The Group has invested CAD 123 million into Auxly Cannabis Group Inc. by way of a debenture convertible into 19.9 per cent ownership at a conversion price of $0.81 per share. Repayment of the debenture was due on 25 September 2022, but on 19 April 2021 the debenture agreement was varied and it is now repayable on 25 September 2024. The debenture is valued as a loan receivable measured on the basis of discounting future cash flows at a rate of 14 per cent plus the application of an expected credit loss provision. At 31 March 2021 the loan was held at a fair value of £38 million (30 September 2020: £22 million), net of an expected credit loss provision of £24 million (30 September 2020: £36 million). The reduction in the expected credit loss provision reflects improvements in the counterparty credit risk position although there continues to be a level of future credit risk exposure against this financial asset.

14. SHARE BUYBACKS

Shares purchased under the Group's buyback programme represent a deduction from equity shareholders' funds, and are only cancelled if the number of treasury shares approaches 10 per cent of issued share capital. During the period the Group purchased nil shares at a cost of £nil (6 months 2020: 5,098,508 shares at a cost of £92 million which were immediately cancelled, increasing the capital redemption reserve).

15. CONTINGENT LIABILITIES

The following summary includes updates to matters that have developed since the 2020 Annual Report and Accounts.

USA STATE SETTLEMENT AGREEMENTS

In November 1998, the major US cigarette manufacturers, including Reynolds and Philip Morris, entered into the Master Settlement Agreement ("MSA") with 52 US states and territories and possessions. These cigarette manufacturers previously settled four other cases, brought by Mississippi, Florida, Texas and Minnesota, by separate agreements with each state (collectively with the MSA, the "State Settlement Agreements", with Mississippi, Florida, Texas and Minnesota known collectively as the "Previously Settled States"). ITG is a party to the MSA and to the Mississippi, and Minnesota State Settlement Agreements.

In connection with its 12 June 2015 acquisition of four cigarette brands (Winston, Salem, Kool and Maverick, referred to as the "Acquired Brands") from Reynolds and Lorillard, ITG has been involved in litigation and other disputes with the Previously Settled States, Philip Morris, and Reynolds in their state courts. ITG has also been involved in litigation with Reynolds in the Delaware court that has jurisdiction over disputes under the acquisition agreement for the Acquired Brands.

There have been substantial developments in several of these litigations:

• The parties have resolved the litigation in Minnesota, with the Court ordering dismissal of the claims with prejudice on 17 March 2021. Minnesota sought settlement payments on the Acquired Brands of approximately $58 million plus interest, plus future annual payments of approximately $13 million, and Philip Morris sought additional amounts related to a portion of the payment calculation affecting Philip Morris. In the settlement, ITG paid $28 million (£22 million) and Reynolds paid $52 million. ITG will pay an estimated $13 million on 31 December 2021 and each year thereafter.

• The parties are discussing a settlement with Texas similar to the Minnesota resolution. The Group has accrued $27 million (£20 million) in the half year related to this.

• The Florida court's decision that Reynolds, not ITGB, owes $127 million in back payments and an estimated $26 million annually under that settlement is now final and unappealable, with the Florida Supreme Court denying Reynolds' petition for a further appeal. Reynolds has asked the Delaware court to order ITG to indemnify it for those obligations.
• The portions of the Delaware dispute that related to Minnesota have been settled and dismissed as well.

• The parties have also resolved Philip Morris' related claim under the MSA, challenging ITG's right to receive a "Previously Settled States Reduction" worth about $65 million a year, as such claim relates to Minnesota.

The Group's legal advice is that it has a strong position on the remaining pending claims related to the Acquired Brands and the Group therefore considers that no provision is required for these matters.

COMPETITION AUTHORITY INVESTIGATIONS

SPAIN

On 12 April 2019 the Spanish National Commission on Markets and Competition (CNMC) announced penalties against Philip Morris Spain, Altadis, JT International Iberia and Logista. Altadis and Logista received fines of €11.4 million and €20.9 million, respectively, from the CNMC. According to the decision, Altadis and Logista are alleged to have infringed competition law by participating in an exchange of sales volume data between 2008 and February 2017. CNMC considers that this conduct had the effect of restricting competition in the Spanish tobacco market. Both companies believe that the arguments made by CNMC that define this conduct as anti-competitive are flawed. In June 2019, both Altadis and Logista commenced appeals to the CNMC's Decision and the fines imposed in the Spanish High Court where they believe they will be successful, a decision supported by external legal counsel. In September 2019 Altadis and, separately, Logista arranged bank guarantees for the full amount of the fines with the result that payment of the fines had been suspended pending the outcome of the appeals. Therefore, provision for these amounts is not considered appropriate. In the Altadis appeal, both parties have concluded their submissions to the Court and a judgment is awaited. A judgment is unlikely to be received before the end of 2021.

In the Logista appeal, Logista submitted their pleadings before the High Spanish Court in February 2021. A judgment is also unlikely to be received before the end of 2021.

BELGIUM

On 29 May 2017, the National Competition Authority in Belgium (the BCA) conducted raids at the premises of several manufacturers and wholesalers of tobacco products. The BCA investigation continues. No decision has been taken and no fine has been imposed. There are multiple stages remaining in the ongoing procedure before a final regulatory decision is issued meaning that the finding of an infringement remains uncertain and therefore a provision for a fine would not be appropriate.

OTHER LITIGATION

UK

In June 2020, the Group responded to a claimant law firm's allegations of human rights issues in the Malawian tobacco supply chain, which included allegations relating to child and forced labour. In December 2020, a claim was filed in the UK High Court against Imperial Brands plc, Imperial Tobacco Limited and four of its subsidiaries by a group of tobacco farm workers. Imperial Brands plc and its relevant subsidiaries have acknowledged service and confirmed to the claimants that they intend to defend the claim in full. The claim is unquantified, and given the early stage of the litigation a provision would not be appropriate.

MOROCCO – FORMER RETIREES

A large number of cases have been raised by individual pensioners against Société Marocaine des Tabacs SA (SMT) disputing a reduction to retirees' pensions. These cases have been in the courts for a number of years and SMT has successfully defended many of them in the lower courts. Six cases have been reviewed by the Cour de Cassation (Supreme Court) in Morocco, and it is understood that they have been decided against SMT although no reasoned judgment has been issued by the court at the time of signing these accounts. An assessment is currently being made as to procedural options available to SMT. As there remain areas of uncertainty in relation to the basis of the judgments and the likely financial impact for the six reportedly decided cases and the wider group of claims, a provision is not currently appropriate. There is a possible outcome that SMT may owe retirees up to £100 million in the event that all claims were found against SMT.

16. POST BALANCE SHEET EVENTS

SALE OF THE PREMIUM CIGAR DIVISION

On 29 April 2021 the group received payment of €256 million in settlement of part of the deferred consideration on the sale of the Premium Cigar Division. See note 10 for more details.

17. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. No related party transactions have taken place in the 6 months ended 31 March 2021 (6 months 2020: none) that have materially affected the financial position or performance of the group during that period.