IMPERIAL BRANDS

# A CHALLENGER MINDSET

ANNUAL REPORT AND ACCOUNTS 2022

## CONTENTS

### STRATEGIC REPORT


At a Glance 2
Chair's Statement 4
Chief Executive's Statement 6
Our Distinct Approach 10
Transformation in Action 12
Our Investment Case 26
KPIs 28
Stakeholder Engagement 30
Non-Financial Information Statement 35
ESG Review 36
TCFD 59
Operating Review 66
Financial Review 73
Principal Risks and Uncertainties 82


### GOVERNANCE


Chair's Introduction 94
Board Leadership 96
Section 172 108
Board Statements 112
People and Governance Committee 113
Audit Committee 119
Remuneration Report 130
Directors' Report 149


### FINANCIALS


Independent Auditors' Report 156
Consolidated Income Statement 166
Consolidated Statement of Comprehensive Income 166
Consolidated Balance Sheet 167
Consolidated Statement of Changes in Equity 168
Consolidated Cash Flow Statement 169
Notes to the Consolidated Financial Statements 170


### SUPPLEMENTARY INFORMATION


Adjusted Performance Measures 221
Glossary 229


### IMPERIAL BRANDS PLC FINANCIALS


Imperial Brands PLC Balance Sheet 230
Imperial Brands PLC Statement of Changes in Equity 230
Notes to the Financial Statements of Imperial Brands PLC 231


### SHAREHOLDER INFORMATION


Shareholder Information 245



For more information please see www.imperialbrandsplc.com


### MEET OUR PEOPLE


**Anna**
Executive Assistant, Ivory Coast Cover
**Maite and Álvaro**
Supply Chain Manager and Finance Controller, Spain 1
**Shradha**
ESG Executive, UK 1
**Oleksandr**
Production Mechanic, Ukraine 3
**Juan José**
Quality Specialist, Spain 11
**Maria**
Brand Manager, Spain 12
**Elara**
Retail Representative, UK 15
**Debbie**
Marketing Services Manager, US 15
**Marie-Louise**
People & Culture Business Partner, Ivory Coast 16
**Sandhya**
Consumer Experience Manager, UAE 17
**María**
Sales Representative, Spain 18
**Raúl**
Production Mechanic, Spain 21
**Grzegorz**
Learning & Development Coordinator, Poland 21
**Matthew**
QC Analyst, UK 22
**Katrina and Mohamad**
Manufacturing Excellence Manager and Production Operator, Sweden 24
**Andrea**
Trade Marketing Analyst, Spain 25
**Oleksii**
Production Operator, Ukraine 27
**Jodi**
Laboratory Manager, UK 38
**Jenny**
Production Engineer, Sweden 43
**Daniel**
Trade Marketing Manager, Sweden 44
**Ralf**
Factory Operator, Germany 50
**Fernando**
Human Rights Manager, UK 51
**Adam**
Process Engineer Specialist, UK 53
**Joshua**
Data Scientist, Poland 56
**Alona**
Retail Development Representative, UK 58

# WE ARE TRANSFORMING

By becoming a strong challenger, we are building a business more capable of growth year in, year out.

# DELIVERING ON OUR STRATEGY

The five-year strategy we launched in January 2021 was the roadmap for our transformation. Since then we have been building the foundations for future success – and we are now on track to move to the next phase of delivery.

## WE HAVE A CLEAR STRATEGY TO BECOME A STRONG CHALLENGER...

### STRATEGIC PILLARS

Pages 14-19

### CRITICAL ENABLERS

Pages 20-25

## WHICH WE ARE ROLLING OUT WITH DISCIPLINE...

### PHASE 1: BUILDING FOUNDATIONS

- Five-year strategy launched
- Top five aggregate market share stabilised
- NGP trials begin
- Exit of Russia completed

Jan 2021 — Sept 2021

- Efficiency programme begins
- New Global Consumer Office established
- New management team in place
- Purpose, vision and behaviours launched
- Refresh of ESG strategy

## OUR FINANCIAL PERFORMANCE

**Tobacco & NGP net revenue**
£7.8 bn
+1.5%*

**Adjusted EPS**
265.2p
+4.9%*

**Reported EPS**
165.9p
-44.7%

**Dividend per share**
141.17p
+1.5%*

* Movement on a constant currency basis.

### Performance measures used throughout the report

**Reported (GAAP)**
Complies with International Financial Reporting Standards and the relevant legislation.

**Adjusted (Non-GAAP)**
Non-GAAP measures provide a useful comparison of performance from one period to the next. The basis of our adjusted measures is explained in the accounting policies accompanying our financial statements and the APM section within Supplementary Information.

**Constant currency basis**
Removes the effect of exchange rate movements on the translation of the results of our overseas operations. We translate current year results at prior year foreign exchange rates. See page 75 for more details.

**Market share**
Market share data is presented as a 12-month moving average weighted across the markets in which we operate.

**Stick equivalent**
Stick equivalent volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.

**Our purpose remains:**
Forging a path to a healthier future for moments of relaxation and pleasure.

For more information
please see www.imperialbrandsplc.com

## STRENGTHENING OUR INVESTMENT CASE...

NGP trials validate further roll-outs

Top five aggregate market share growth

Further NGP market launches

Sept 2022

Operational efficiencies drive improvements

Behaviours embedded in performance-based culture

### PHASE 2: IMPROVING RETURNS

- Revitalised tobacco business driving strong cash returns
- NGP business providing options for potential harm reduction and growth
- Strong, sustainable cash flow generated from a high-quality portfolio

2023 – 2025

- New capabilities and more efficient structures delivering operational improvement and strengthening performance
- Progressive dividend supplemented by surplus capital returns via a share buyback

## AND DELIVERING FOR ALL STAKEHOLDERS

**Our consumers**
Millions of adults worldwide choose to enjoy our tobacco and NGP. Meeting their expectations of quality and understanding their evolving requirements are vital for the long-term sustainable growth of our business.

**Our colleagues**
Our colleagues are our most important asset. It is essential we create a supportive, safe and rewarding work environment to enable them to deliver our goals and develop their careers.

**Our customers**
We work closely with distributors, wholesalers and retailers to ensure our products are available to adult consumers in a diverse range of outlets worldwide. They play a crucial role in our business model.

**Governments & regulators**
Approaches to legislation vary significantly across geographies. We support reasonable regulation of tobacco and nicotine products and look to have constructive engagement with policy makers and regulators.

**Our investors**
Our investors provide capital to the business and monitor management's allocation of that capital within the business.

**Our suppliers**
We maintain strong relationships with our tobacco, non-tobacco materials (NTM) and NGP suppliers to help ensure sustainable supply and business continuity, underpinned by fair contract and payment terms.

## OUR BRANDS

Our portfolio of brands connects with adult consumers in all the key tobacco and next generation product segments. We invest in innovation to meet evolving consumer preferences.

**c.120**
markets

Cigarettes

Other tobacco products & accessories

Vapour

Heated tobacco

Modern oral

# FOUNDATIONS FOR LONG-TERM SUCCESS

## DEAR SHAREHOLDERS

This has been a year of significant progress for Imperial against a backdrop of unexpected and challenging conditions.

We have strengthened our core combustible business and reshaped our next generation product (NGP) operations.

We have reduced debt to our target range and begun a £1 billion share buyback.

At the same time, we have further upskilled and diversified our Board and executive team, progressed our broader cultural change agenda, introduced new consumer capabilities, and continued to build a simpler and more efficient organisation.

All this has been achieved against the headwinds of the war in Ukraine and the exit from our Russian business, global supply chain disruptions, high inflation and a squeeze on household incomes.

The team remained focused on the methodical roll-out of our strategy and we are emerging as a strong challenger business – our natural role as the smallest of the four global tobacco companies.

On behalf of the Board, I would like to say a big "thank you" to the entire Imperial workforce for their commitment and the way they continue to embrace change with enthusiasm.

### A purpose-led approach to ESG

During 2021 alongside our new strategy we began articulating a new purpose: "forging a path to a healthier future for moments of relaxation and pleasure" as well as a clear vision "to build a strong challenger business powered by responsibility, focus and choice". In the past year we have evolved these high-level aspirations into granular objectives for our most material environmental, social and governance (ESG) priorities, and the Board has been engaged in the development of this fresh approach. For more on our People and Planet agenda see pages 36 to 58.

Our most important area of focus will continue to be consumer health. Smoking is a cause of serious diseases and, despite these health risks, many people choose to continue to smoke. That is why it is important we are successful in offering attractive,

potentially less harmful alternatives to adult smokers. Our NGP operations over the past two years have become more consumer-centric and innovative, and in this year the Board was pleased to authorise an ambitious but disciplined expansion of our footprint.

Another area where we can support a healthier future is by delivering on our goal to become a Net Zero company by 2040. This year, for the first time, we are publishing a full report detailing our strategy for climate change in line with the requirements of the Task Force on Climate-related Financial Disclosures (see pages 59 to 65).

Building a more diverse and inclusive business – at all levels – is another important priority. During the year, we brought in new talent from outside the organisation to develop this agenda. I have also been encouraged by the way this team, working closely with our four Employee Resource Groups focusing on gender, disability, sexual orientation and ethnicity, are identifying the key structural issues and developing focused plans.

Underlining our commitment to delivering on our ESG priorities, for FY23 we have introduced metrics on consumer health and climate change for Executive Directors' bonuses (see Directors' Remuneration Report, from page 130). And we will reflect on how ESG can be incorporated into our triennial review of remuneration policy in the coming year.

## Upskilling and diversifying the Board

Over the past two financial years, the Board has been substantially strengthened, with two new Executive Directors and four new Non-Executive Directors. These changes have brought a depth of knowledge and capabilities from consumer-facing businesses as well as expertise in strategy, managing international businesses, change management, finance and regulatory affairs. Steven Stanbrook retired from the Board following our Annual General Meeting in February 2022. I would like to thank Steven for his valuable service to the Board over the past six years.

No new appointments to the Board were announced during the past year. Our focus therefore has been on deepening our knowledge of the business and enhancing our engagement with stakeholders, particularly consumers and employees, to enable us to provide more insightful challenge and improve decision making.

## Broadening stakeholder engagement

I have continued to have regular dialogue with our major investors and we recently undertook an investor perception study. Encouragingly, the survey suggests investors are supportive of the new strategy and management, and of the changes we are making to strengthen the business.

During the year, we held Board meetings in London, Bristol, Madrid and Greensboro, North Carolina, giving us many opportunities to meet and have active dialogues with employees, customers, consumers and suppliers. In August, accompanied by Stefan, I visited Malawi to develop a greater understanding of our evolving approach to improving farmer livelihoods and agricultural sustainability.

A clear example of how the Board carefully considers the needs of different stakeholders in its decision making is our successful exit from Russia. Our approach had to balance the need to ensure the personal security of our Russian team, with the clear expectations of shareholders, our global workforce and wider civil society. While we have now completed the transfer of our Russian business, we continue to support our 600 Ukraine staff, including through a hardship fund which has been used to finance the reconstruction of war-damaged homes.

## Prioritising capital allocation

The Board believes capital allocation is a key value lever alongside the delivery of the Group's strategy. Our strategic review in 2021 defined our capital allocation priorities and the Board regularly evaluates progress against these priorities, starting with the investment needs of the business, followed by the appropriate capital structure and the best way to maximise returns to shareholders through a progressive dividend policy and by returning surplus capital.

The business now has the strategy to deliver sustainable growth in cash flows, and the balance sheet flexibility to deliver meaningful and ongoing returns to shareholders. Having reached our target leverage at the end of September 2022, the Board approved the launch of an ongoing buyback programme with a commitment to initially repurchase shares to the value of £1 billion during our 2023 financial year. We are also recommending a 1.5% increase for the final dividend this year, bringing total dividends for the year to £1.3 billion.

## Towards a healthier future

While Imperial is not immune to cost inflation and the squeeze on consumer incomes, the strong foundations we have built over the past two years mean we are now more resilient in the face of short-term pressures and better able to deliver sustainable returns for shareholders. Looking to the longer term, we see a shift towards potentially healthier ways of enjoying moments of relaxation and pleasure – and Imperial is increasingly well placed to support consumers on this journey.

**Thérèse Esperdy**
Chair

# DELIVERING ON OUR STRATEGY

## We are now two years into our strategy and I am pleased with our progress so far.

The foundations have been built and we are moving to the next phase of the plan: improved, more consistent performance and enhanced returns for investors.

Since the launch of our strategy in January 2021, every action we have taken has been in support of a single overarching goal – the creation of a strong and sustainable challenger business.

As the smallest of the four major global players in our industry, we know that we can only out-compete our rivals by getting closer to consumers, spotting value that others overlook and then implementing at pace and at scale.

The foundational elements in our strategy, which we call the critical enablers, are the capabilities, structures and culture needed to help us to act more successfully and consistently as a challenger.

These firm foundations are already helping us deliver tangible operational and financial outcomes.

Over the past two years we have revitalised our five largest combustible markets, which account for around 70% of our operating profit. We've grown our aggregate share across these five markets by 35 basis points in the last 12 months, while maintaining pricing discipline. As we've previously said, we're unlikely to see growth in all five markets in any given year, but what is important is the aggregate gain (see pages 14-15 for more information).

We have refreshed our next generation products (NGP) business with new propositions across all three categories. One year after launch, our heated tobacco proposition – Pulze and iD – is now available in five European markets including Italy, which is Europe's largest heated tobacco market. Following a successful pilot in France, we have launched our all-new blu 2.0 pod-based vape device in the UK, and added a disposable offering to the blu family of products. In modern oral, we have successfully launched Zone X in Norway. At the same time, we have reduced overall NGP losses and delivered an acceleration in net revenue growth of around 11% (see pages 18-19).

We have also refocused our broader market portfolio, investing management time and expertise in our most promising opportunities. During the year we exited Japan and delivered on our commitment to exit the Russian market, while continuing to support our 600 colleagues in Ukraine (see page 17).

### IMPROVED PERFORMANCE

The success with which we are delivering our strategy is translating into improved operational and financial performance, with growth in net revenue of 1.5% and in adjusted operating profit of 1.8% at constant currency in this financial year. Reported revenue was down 0.7% driven by adverse foreign exchange translation and operating profit declined 14.7% driven primarily by charges related to our exit from Russia and associated markets and non-

recurrence of gains on disposal of the Premium Cigar Division. Strong cash performance delivered almost £2.6 billion of free cash flow, which has further strengthened the balance sheet, and enabled us to step up returns to shareholders.

These achievements have been delivered against a backdrop of inflationary pressures and a squeeze on consumer purchasing power. As expected, our tobacco price mix strengthened in the second half to 10.7%, bringing overall price mix up to 6.0% for the year.

We are a more resilient business than we were two years ago, and this gives us confidence that we can continue to successfully navigate these short-term headwinds and deliver on our strategy. It has also reinforced our view that the business can commit to an ongoing, multi-year shareholder returns strategy through a progressive dividend and share buyback.

## FOUNDATIONS FOR A STRONG CHALLENGER

Successful challenger businesses put consumers at the heart of everything they do. Over the past two years we have taken a structured series of steps to improve our consumer insights and our ability to act effectively on them. The investments we have made in building our consumer-centric capabilities are beginning to bear fruit. The way we are now able to innovate more rapidly can be seen in the successful launch this year of our blu 2.0 vape device. We have also introduced a more structured approach to brand building, which is evidenced in our refresh of Winston in the US. This initiative, which combined careful consumer research, imaginative pack design, distribution initiatives, and innovative digital partnerships, is already leading to encouraging market share progress (see pages 20-21)

We have implemented further changes to make our structures simpler and more efficient, better enabling us to become a strong challenger. In 2021, we reorganised the Executive Leadership Team and made changes to our regional and cluster structure; for example, by creating a new AAA region to focus on market opportunities beyond Europe and the US. Over the past year, we have also been building new functional centres of excellence, which will enable the corporate functions to better support the growth agenda of our consumer- and market-facing teams and this work will continue into 2023. These new ways of working will be further enhanced by a multi-year digital transformation programme to upgrade our Enterprise Resource Planning processes, which is now underway. At the same time, I can also confirm that actions already taken will deliver £120 million of annual savings in FY23 (see pages 24-25).

We continue to embed a high-performance culture, integrating our purpose, vision and new behaviours, which we call Connections. All of us at Imperial – the Executive Leadership Team, managers and front-line colleagues – have invested considerable time over the past year understanding how to use our behaviours in our every-day working lives. For 1,100 of our senior leaders, this has meant spending 20 hours on immersive training sessions focusing on developing both individual behaviours and team dynamics. In addition, each function and region has gone through a detailed process, known as Leading Sustainable Change, to align its goals with our purpose, vision and Group strategy. During 2023, we will fully integrate our behaviours into how we manage the performance of our people and continue to develop the skills of our leaders. For us, cultural change is much more than putting slogans on office walls. This is a highly structured multi-year programme which plays an essential role in our strategy to build a company capable of long-term growth. (see pages 22-23).

We have further strengthened our leadership team, to create a distinctive blend of deep tobacco knowledge and diverse experience from the consumer-packaged goods sector and beyond. During the year, Sean Roberts joined us as Chief Legal and Corporate Affairs Officer. This is a new position in our Executive Leadership Team, which underlines our commitment to acting with responsibility. Sean has 30 years' experience in legal and regulatory roles, most recently as General Counsel of GSK Consumer Healthcare.

I would also like to thank Joerg Biebernick, who decided to step down as President of our Europe region in October 2022. I am grateful to Joerg for his support to me on the Executive Leadership Team and his contribution to Imperial over the past five years. We wish him all the best for the future. Joerg has been succeeded by Aleš Struminský who, during his 20-year career with Imperial, has held a range of senior positions including most recently General Manager for the UK&I cluster.

## PURPOSE, PEOPLE AND PLANET

Alongside our new strategy, in 2021 we communicated an updated purpose, "forging a path to a healthier future for moments of relaxation and pleasure" and vision, "to build a strong challenger business powered by responsibility, focus and choice". Over the past year, informed by our strategy, purpose and vision, we have refreshed our environmental, social and governance (ESG) priorities, which internally we call our People and Planet agenda. We have upgraded our governance, creating a new ESG executive committee, which I chair and we ensure there are regular opportunities for the Board to scrutinise our progress. A comprehensive ESG materiality assessment has helped us zero in on

### UNDERSTANDING CONSUMER DYNAMICS

**COVID-19 unwind**
Lifting of restrictions is causing changes to consumer buying patterns.

Impact: Ongoing

**Inflationary pressures**
Inflation likely to affect purchasing power of some consumers.

Impact: Not material in 2022

**Potentially reduced harm**
Consumers continue to seek reduced harm alternatives.

Impact: Long-term

For more information, please see page 10.

the priorities across our value chain that matter most to our stakeholders (see pages 36-58).

We recognise that there are health risks associated with smoking and, of course, our most material ESG priority remains consumer health.

This Company's duty is therefore two-fold: to responsibly serve the needs of those adults who have made an informed choice to smoke; and to develop and scale up potentially less harmful choices which are attractive to existing consumers of nicotine products. Focusing on markets where we have established routes to market, we believe we can play a distinctive role in NGP by creating exciting choices for consumers, driving innovation across the industry, and accelerating potential harm reduction.

We continue to make progress towards our ambitious Net Zero targets, reducing our Scope 1 and Scope 2 carbon emissions by 19% since our baseline year of 2017. Following a detailed scenario analysis we are this year publishing our first report articulating our approach to climate strategy and risk, in line with the requirements of the Task Force on Climate-related Financial Disclosures (see pages 59-63).

## ALLOCATING CAPITAL WITH DISCIPLINE

Focus and discipline are key elements that underpin our five-year strategy. They are also important principles behind our capital allocation priorities. I am pleased to report we are delivering against our four priorities exactly in line with what we set out in our strategic review in January 2021.

Our strategy is supported by four clear capital priorities:

- Invest behind the new strategy to deliver the growth initiatives.
- Deleverage to support a strong and efficient balance sheet with a target leverage towards the lower end of our net debt to EBITDA range of 2-2.5 times.
- A progressive dividend policy with dividend growing annually, taking into account underlying business performance.
- Surplus capital returns to shareholders once our target leverage has been achieved.

Having now strengthened our balance sheet and reached our target leverage, I am delighted that, since October 2022, we have begun returning surplus capital to shareholders via an ongoing share buyback. We have committed to an initial buyback of £1 billion for the first year, which will be concluded by September 2023. Taking our dividends and buyback together, we expect our capital returns to shareholders will exceed £2.3 billion in the coming fiscal year.

Our improving performance and our confidence in our ability to continue to generate strong cash flows in the coming years supports growing shareholder returns through a progressive dividend and an ongoing buyback programme to meaningfully reduce the capital base over time.

## STRENGTHENING DELIVERY

As COVID-19 restrictions have eased, I have spent time face to face with our consumers, people, customers and partners in every continent where we operate. Tobacco farmers in Malawi, factory workers in Poland, convenience store clerks in North Carolina and a panel of consumers convened in a Sydney pub are among the many stakeholders I have had the pleasure of meeting.

These conversations have reinforced my initial analysis that Imperial benefits from hard-to-replicate competitive advantages, including effective supply chain management, deep scientific skills, powerful retail relationships, great brands and strong market positions in some of the world's largest and most attractive markets.

Through these visits I am seeing more and more examples of how our transformation to become a challenger business is driving operational success. Stronger consumer insights, more effective structures and a single global performance culture are enabling us to deliver more consistent, sustainable operational and financial outcomes.

## OUTLOOK

We remain on track to deliver against our five-year plan. The additional investment and the actions we have taken during the initial two-year strengthening phase have built strong foundations for the next three-year phase of our plan to deliver improving returns.

As we move into that phase, we continue to expect low single-digit constant currency net revenue growth with constant currency adjusted operating profit growth accelerating to deliver mid-single digit CAGR over the next three years.

We are confident our investments and initiatives will continue to gain traction and we therefore expect the growth rate of our adjusted operating profit to improve within this mid-single digit range over the three years. In FY23, the acceleration will be driven by pricing and operational gearing, improved geographic mix from our priority market focus and cost savings, partially offset by cost inflation and increased NGP investment.

Performance will be weighted to the second half of the year, due to the phasing of NGP investment, the impact of our exit from Russia in April 2022 and the continued unwind of COVID-19 that will all affect the first half. As a result, the first half adjusted operating profit is expected to be at a similar level to last year, at constant currency.

At current rates, foreign exchange translation is expected to be a 5-6% tailwind to net revenue, adjusted operating profit and earnings per share.

We remain confident in our plans in the face of current macro-economic challenges with potential pressure on consumer spending and high inflation. And as we align our business more closely with the secular consumer trend towards healthier moments of relaxation and pleasure, we believe we are well placed to generate long-term value for shareholders and all our stakeholders.

**Stefan Bomhard**
Chief Executive Officer

# A STRENGTHENED TEAM

For more information
please visit
www.imperialbrandsplc.com

1. Stefan Bomhard
Chief Executive Officer

2. Lukas Paravicini
Chief Financial Officer

3. Alison Clarke
Chief People
and Culture Officer

4. Anindya (Andy) Dasgupta
Chief Consumer Officer

5. Javier Huerta
Chief Supply Chain Officer

6. Murray McGowan
Chief Strategy and
Development Officer

7. Paola Pocci
President, Africa,
Asia and Australasia Region

8. Kim Reed
President and CEO,
Americas Region

9. Sean Roberts
Chief Legal and Corporate
Affairs Officer

10. Aleš Struminský
President, Europe Region

# RESPONDING TO MARKET DRIVERS

As the global tobacco industry transforms to satisfy changing consumer needs, Imperial is responding by adopting a challenger mindset.

## OUR MARKET

The global tobacco market is valued at US $850 billion, with cigarettes representing the largest category with over 5,200 billion cigarettes consumed each year. The market is heavily regulated and highly consolidated. It is also an industry in transformation as consumers transition to potentially reduced harm products.

Despite the well-known health risks of smoking, more than 19% of the world's adult population still choose to smoke and many of our consumers tell us they value our products for the moments of relaxation and pleasure they provide. Our role, therefore, is to responsibly serve the needs of those adults who have made an informed choice to smoke by offering them a portfolio of high-quality tobacco products across a range of price points.

We also have a role to meet the needs of those adult smokers who are increasingly looking for potentially less harmful alternatives to cigarettes. Our strategy is to understand the needs of these adult consumers and to provide potentially less harmful next generation products (NGP).

This year we started to see a return to pre-COVID consumer buying patterns as international travel recovered and, looking ahead, we anticipate inflationary pressures are likely to affect purchasing power of some consumers.

### Regulation and excise

Tobacco and nicotine regulation continues to evolve and remains a significant influence on how we manufacture, advertise and sell our products, and how our consumers buy and enjoy them. Regulation varies widely across regions and markets. At a regional level, the EU is re-examining its Tobacco Products Directive. Nationally, countries such as New Zealand have unveiled comprehensive programmes of new regulation, while the US and Greece have further developed product-by-product approval pathways for the marketing of tobacco and nicotine products. Combustible tobacco is heavily taxed, contributing globally more than US $200 billion to governments each year.

Imperial Brands supports reasonable and rational regulation of tobacco and nicotine products, in some cases going beyond requirements established in law. Most notably, our products are for adult nicotine consumers only. More information on our measures to prevent underage access can be found on pages 38-40.

### Harm reduction

Across regions and markets regulators have adopted different approaches to promote tobacco harm reduction policies. Some governments accept that not all nicotine products are equally harmful, and that public health benefits can be realised at a population level if existing smokers transition to potentially less harmful products, so long as there is minimal transition in the other direction, and such products do not attract new users who would not otherwise have chosen to consume nicotine.

While jurisdictions that have implemented tobacco harm reduction policies have seen positive public health results, the approach has not yet captured the support of all regulators. However, where policies have been adopted to limit the transition to potentially less harmful alternatives, such as aggressive excise duty or complete bans, there is a greater risk that this will fuel the growth in illicit trade.

### Illicit trade

Unfortunately, the prevalence of the illicit trade in tobacco products means that we face competition from a less scrupulous criminal supply chain. Illicit tobacco deprives the responsible industry of revenue, deprives governments of vital excise, and deprives consumers of the security of enjoying rigorously tested, high-quality products. The illicit trade is a complex phenomenon, driven by economic, practical, and political factors. Fighting illicit trade requires a co-ordinated approach from government and industry. Imperial continues to work with enforcement agencies to reduce this scourge.

## OUR ASSETS

### Our colleagues

Our colleagues are our most important asset. We have 26,000 committed and passionate employees who want to make a difference.

### Our brands

Our portfolio of 160 brands provides enjoyment and pleasure for millions of adult consumers every day.

### Our relationships

We have solid, trusted partnerships with stakeholders, including customers and suppliers across c.120 markets.

### Our operations

We have a network of 30 manufacturing sites that source and process tobacco raw materials to provide high-quality products at lowest cost.

### Our industry knowledge

Our deep knowledge of the tobacco and nicotine industry, including our consumer insights, helps us to operate responsibly in all our markets.

### Our financial strength

We are able to raise prices to more than offset volume declines to deliver high margins and strong cash flows to invest and drive returns.

# HOW WE OPERATE

## ADULT CONSUMER INSIGHTS

We start with the consumer – and everything we do is based around a deep understanding of adult smokers and nicotine consumers. Our insight is led by our Global Consumer Office and we unlock value by ensuring we offer our customers the right product choices to meet consumer needs. These insights provide competitive advantage, and inform our product offerings in both combustible tobacco and NGP and how we communicate with adult consumers.

## SCIENCE & REGULATION

We use our know-how and smaller size to be agile in how we respond to regulatory changes. This is supported by our science and corporate affairs teams, who understand the regulatory environment in all our markets and ensure we operate responsibly and provide high-quality products compliant with local standards.

## STRONG RETAIL PARTNERSHIPS

We sell our products to our customers. Our sales and marketing teams have built strong partnerships with them through sales force coverage, retailer incentivisation and point of sale advertising, where appropriate. We understand their needs and help them to navigate the changing regulatory environment. Our goal is to deliver mutually attractive commercial arrangements that support growth and value creation for our retailer, wholesaler and distributor customers.

## MARKETING & INNOVATION

Our marketing and innovation teams add value by using consumer insights to develop a portfolio of combustible tobacco and potentially reduced harm NGP to engage and excite adult consumers. We use sales and marketing communications and innovation to differentiate our brands and meet evolving consumer needs.

## EFFICIENT MANUFACTURING

Our manufacturing teams employ the latest production methods, working to the highest quality and product manufacturing standards. Our scale and knowledge are competitive strengths, enabling us to supply quality products at lowest cost. Where appropriate, for example with NGP devices, we use third-party manufacturers with the technical expertise to deliver high-quality products. We also use third-party logistics companies to distribute our products.

## SUSTAINABLE SOURCING

Our leaf purchasing teams work with a diverse and complex supply chain from smallholder farmers to multinational companies to procure high-quality leaf and nicotine for our products. Our procurement teams add value by responsibly meeting all our sourcing needs including leaf, nicotine and non-tobacco materials such as papers, filters and packaging, as well as the power and water we use to run our factories. Their decisions are guided by our ESG commitments.

## STAKEHOLDER VALUE

### Our consumers

Millions of adults worldwide choose to enjoy our tobacco and next generation products. Meeting their expectations of quality and understanding their evolving requirements are vital for the long-term sustainable growth of our business.

### Our colleagues

It is essential we create a supportive, safe and rewarding work environment to enable them to deliver our goals and develop their careers.

### Our customers

We work closely with distributors, wholesalers and retailers to ensure our products are available to adult consumers in a diverse range of outlets worldwide. They play a crucial role in our business model.

### Governments and regulators

Approaches to legislation vary significantly across geographies. We support reasonable regulation of tobacco and nicotine products and look to have constructive engagement with policy makers and regulators.

### Our investors

Our investors provide capital to the business and monitor management's allocation of that capital within the business.

### Our suppliers

We maintain strong relationships with our tobacco, non-tobacco materials (NTM) and NGP suppliers to help ensure sustainable supply and business continuity, underpinned by fair contract and payment terms.

# OUR TRANSFORMATION IN ACTION

Our choices are guided by our strategy, purpose and vision as well as our refreshed approach to environmental, social and governance (ESG) priorities.

**OUR PURPOSE**

Forging a path to a healthier future for moments of relaxation and pleasure.

**OUR VISION**

To build a strong challenger business powered by responsibility, focus and choice.

**STRATEGIC PILLARS**

Pages 14-19

**CRITICAL ENABLERS**

Pages 20-25

**OUR BEHAVIOURS**

Page 23

- Start with the Consumer
- Collaborate with Purpose
- Take Accountability with Confidence
- Be Authentic, Inclusive to all
- Build our Future

**HOW WE MEASURE OUR PERFORMANCE**

Pages 28-29

To measure our performance we have ten financial and four non-financial key performance indicators – see pages 28 and 29. We measure the performance of several other indicators. Financial performance is reported on pages 73 to 81, and non-financial performance is reported on pages 36 to 65.

**OUR APPROACH TO ESG**

Pages 36-58

**HEALTHIER FUTURES**

- Consumer health
- Climate change
- Packaging and waste

**POSITIVE CONTRIBUTION TO SOCIETY**

- Farmer livelihoods & welfare
- Sustainable & responsible sourcing

**SAFE & INCLUSIVE WORKPLACE**

- Employee health, safety & wellbeing
- Diversity, equity & inclusion
- Human rights

# FOCUSING ON PRIORITY COMBUSTIBLE MARKETS

## We're growing market share across our top five markets.

The first pillar of our strategy is a renewed focus on priority combustible markets. Five markets – the US, Germany, UK, Spain and Australia – make up around 70% of our operating profit. In each of these markets, Imperial enjoys a top-three market share position, with established brands and strong customer relationships.

Our two most significant markets are the US and Germany, which together account for around 50% of our net revenue. In both markets, cigarettes remain relatively affordable, providing headroom for future revenue growth through pricing. In Spain, tobacco is also relatively affordable and we have a leading position with a spread of 'local jewel' and global brands. In the UK, Imperial's historic home, we have a strong position in fine cut tobacco in northern England and Scotland. Even in Australia, a market heavily restricted by regulation, we have opportunities to optimise value creation and capitalise on our status as the second largest player.

In the past, however, there was an insufficient focus on these top five markets, and in aggregate Imperial had been the leading donor of market share. At the heart of our new strategy was a recognition that for Imperial to become a business capable of sustainable growth, the long-term share declines in these markets needed to be reversed.

Our strategy defined six operational levers to improve combustible performance and, two years on, we have made significant progress on each front:

1. Increase participation in premium: In the US, a new pack design for Winston and a more targeted marketing approach have driven increased share after a long-term period of decline. And in Germany, our investment behind our Gauloises brand has led to brand growth for the first time in years.
2. Rejuvenate local jewels: In Spain, we have successfully relaunched Nobel, with the brand gaining 15bps over the past two years. In the UK, we have revived the Embassy brand in southern England where we have historically been under-represented.
3. Optimise the value segment: In the US, we capitalised on the exit of KT&G from the market, capturing additional share of around 25bps by expanding our value offering. In Australia, we launched Lambert & Butler as an entirely new value offering to the market, and the brand has grown to around 2% market share in just 11 months.
4. Maximise the potential of fine cut tobacco: We have been strengthening our offerings to consumers in markets where the category is relevant, such as Riverstone in the UK and Paramount in Germany.
5. Drive performance in under-penetrated channels: Investment in our sales teams is an important lever – particularly in markets where we had failed to keep pace with where consumers typically make their purchases. As a result, we have reshaped our sales forces in the US and Germany so that they are more closely aligned to our best growth opportunities by channel and geography.
6. Maximise value creation through key accounts: We have introduced a key account team in the US, where previously this was a gap in our capabilities, and we are refining our approach in other markets, including Germany.

Our success in these six areas has led to growth in aggregate market share for these five priority markets of 35bps over the past year – while at the same time we have maintained strong pricing discipline. During 2022 we saw our US operations increase share by 90bps, Australia by 20bps, UK by 85bps and Spain by 5bps, with declines of 85bps in Germany.

Of course, market share is only one measure of success and we will always take a balanced approach to optimise our operational and financial delivery. What matters strategically is the long-term aggregate strength of our brand franchises in these priority markets.

## PRIORITY MARKET SHARES

12 month share

**USA**
+90bps

**Germany**
-85bps

**UK**
+85bps

**Spain**
+5bps

**Australia**
+20bps

In each of these markets Imperial enjoys a top-three market position, with established brands and strong customer relationships

**Growth in aggregate market share**

# +35 bps

# DRIVING VALUE FROM OUR BROADER MARKET PORTFOLIO

We've identified a clear role for each of our diverse markets.

While our main combustible focus is on our five priority markets, we have a clear view on how we can drive value from the breadth of our full market portfolio. Our smaller markets typically have attractive margins and are potential platforms for future growth. And they are markets which are used to operating successfully with more limited resources and leveraging our global capabilities in manufacturing, distribution and brand building.

Our strategy launched in January 2021 proposed a more rigorous approach to getting the most from this diverse set of markets. First, we strengthened our regional and cluster structures, creating a new AAA division under Paola Pocci to give our smaller markets the focus they need. Paola has brought experience and a skill set from working in developing markets for much of her career.

Second, we have evaluated each of our markets and prioritised how we allocate investment behind the best opportunities for responsible growth.

Third, we have identified a clear role for all our markets. As a result, we deploy a variety of operating models across these markets – from wholly owned sales and marketing operations in our larger markets, to distributor partnerships that leverage their local scale and expertise in many of our smaller markets.

We manage many of them in regional clusters, which can represent sizeable profit pools with potential for future growth. For example, our Africa cluster represents almost 10% of our Group tobacco profit and we have strong market positions in several markets such as Morocco, Algeria and the Ivory Coast. We have adopted a clear brand portfolio strategy to leverage key international brands in targeted markets, such as Gauloises in the Francophone markets, while leveraging the strength of our local brands in key markets. This has delivered further market share gains in the region, for example in Morocco and the Ivory Coast, as well as continued growth in revenue and profit.

Similarly, a clear focus on our Central & Eastern Europe cluster has delivered an improved performance despite the challenges arising in Ukraine. We grew revenue and profit from our combustibles portfolio, as well as delivering successful NGP trials.

Managing these smaller markets is also about agility and being able to spot trends and capitalise on emerging growth opportunities. As the restrictions from the pandemic have gradually lifted in the majority of markets, international travel has resumed, and we have ensured our duty free and travel retail channel operations are ready to meet this shift in demand. Our duty free volumes grew by more than 100% this year and traditional holiday destination markets such as Spain also benefited.

Market prioritisation is also about acknowledging when it is right to exit markets. Having entered Japan in 2013, the business remained relatively small and unprofitable, in spite of ongoing investment and huge efforts by our local teams. After a careful review, we concluded that it was unsustainable for us to continue trading in Japan and we exited during the year.

The Russian conflict with Ukraine and the associated international sanctions created a highly challenging environment in Russia with severe disruption to supply chains. We decided to exit Russia this year, swiftly transferring the business as a going concern to local investors.

**Russia and Ukraine**

In the wake of Russia's invasion of Ukraine, we took decisive action to exit the Russian market and completed the transfer of our entire operation there as a going concern to local investors in May.

We suspended our operations in Ukraine at the outset of the invasion to prioritise the safety of our 600 employees. Following a careful review, many of our activities in Ukraine have been recommenced and we continue to support our people, including with resettlement assistance.

Managing these smaller markets is about agility and being able to spot trends and capitalise on emerging growth opportunities

Through a consumer-focused approach we aim to make a meaningful contribution to harm reduction.

# BUILDING A TARGETED NGP BUSINESS

Our statement of purpose recognises a real opportunity to make a positive difference to society by "forging a path to a healthier future for moments of relaxation and pleasure". We believe we have a role to help adult smokers to make informed choices about the products they consume – whether these are combustible tobacco or next generation products (NGP).

We recognise that smoking is a cause of serious diseases in smokers, and we are committed to making a meaningful contribution to harm reduction by offering adult smokers potentially reduced risk products. This ambition is captured in our strategic pillar to build a targeted NGP business.

As part of our strategy launched in January 2021 we overhauled our approach to NGP. The plan we are now rolling out plays to our strengths; it recognises our position as the smallest of the four global tobacco players, and is based on three clear principles:

- Consumer led: We start by understanding consumers and their needs. This informs our choice of markets, choice of NGP category for each market – vapour, heated tobacco or modern oral – and how we differentiate our propositions.
- Focused: Our role is not to provide a full offering in all markets. Instead we prioritise markets where there is an established category presence and where we have an existing route to market through our tobacco business.
- Collaborative: Our in-house team works in close partnership with third-party innovation houses to harness their expertise and combine this with our knowledge and our insights from adult consumers.

Taken together, this is an approach designed to maximise our contribution to harm reduction and build a sustainable, growing operation, while maintaining a tight focus on costs.

In 2021 we validated this new approach through a series of consumer trials for each of our NGP categories.

For heated tobacco, we ran successful trials for our device, Pulze, and iD sticks in Greece and the Czech Republic. These markets were chosen because heated tobacco already represented at least 10% of nicotine consumption, Imperial had good distribution reach, and the markets were of a size that supported a nationwide launch. We received a positive response from consumers and the trade, and in just 12 months we built a 2.8% heated tobacco share in Greece and a 4.2% share in the Czech Republic. These results confirmed that we had a differentiated product offer with consumer appeal and validated our market investment approach. Building on our learnings, in 2022 we launched in a further three markets – Italy, Portugal and Hungary – and we intend to expand our offering to further European markets in 2023.

In vapour, our enhanced partnership approach to innovation also delivered a first new product in blu 2.0, which we have successfully trialled in four cities in France. As a result, we will now be expanding blu 2.0 nationally in France and into the UK, as well as other markets in the coming year. Our sales in the US of blu declined due to uncertainties caused by the Marketing Denial Order from the FDA which we continue to seek to overturn.

In modern oral, we have launched Zone X into Norway and expanded our flavour offering across other key European markets.

The plan we are rolling out plays to our strengths and recognises our position as the smallest of the four global tobacco players

**NGP net revenue growth**

**10.8%**

on a constant currency basis

Jan 2021

- NGP teams brought together under new Global Consumer Office

Sep 2021

- New NGP strategy launched
- Enhanced our insights capabilities
- NGP investment optimised with market exits completed

Sep 2022

- Pulze and iD launched in Greece and the Czech Republic
- blu 2.0 launched in France
- Zone X launched in several new markets
- Further market and product launches planned throughout Europe

# PUTTING THE CONSUMER AT THE CENTRE OF THE BUSINESS

CRITICAL ENABLERS

*We're investing to support a rigorous approach to consumer insight.*

A critical enabler for our strategy is to place the consumer at the centre of the business. This means investing in capabilities, data and insights to ensure the voice of the consumer shapes and influences our decision making and becomes part of the fabric of our culture.

Our first step was to appoint a Chief Consumer Officer, Andy Dasgupta, to bring the voice of the consumer consistently to the Executive Leadership Team and to the broader business. Since joining in April 2021 Andy has built a connected multi-disciplinary team to drive these changes through the organisation. We have successfully attracted talent from a range of blue-chip consumer goods firms who are bringing best practice and combining it with our existing deep knowledge and experience of the tobacco sector.

The Global Consumer Office led by Andy has focused on four priorities in the past year:

- To embed consumer centricity into the organisation;
- To rebuild consumer-preferred brands to stem the share losses across the priority combustible markets;
- To undertake market trials to validate our approach to NGP;
- To build our innovation capabilities by leveraging third-party partnerships.

### Embedding consumer centricity

This starts with the consumer, and having strong consumer insights as the foundation to all decision making. This has involved multiple workstreams to enhance our existing consumer insight capabilities, changing how we purchase consumer research and, importantly, how we consistently handle data and use it across the organisation. Our objective is to put in place a framework that offers global and local insights and is accessible to all markets to carry out diagnostics directly linked to their consumers.

We have also significantly increased the number of face-to-face consumer focus groups, initially with our five priority markets and then expanding to other key markets and into NGP categories. We have held these for multiple internal stakeholder groups, including the Board, the Executive Leadership Team, and market and category teams. This has brought the voice of the consumer directly into discussions throughout the organisation.

We have invested in enhancing our revenue growth management capabilities to bring a more rigorous and consistent approach to our portfolio pricing decisions and sales channels' trade investment. In an external environment of rising costs, inflationary pressures and consequent changes to consumer behaviour, these additional capabilities have a key role to play in supporting market managers to respond quickly to market dynamics.

### Rebuilding brands to stem share losses across our priority markets

The Global Consumer Office is working in conjunction with our five priority markets to refine their investment plans and initiatives by leveraging our improved consumer insights and capabilities. Each market has developed a detailed bottom-up portfolio strategy for their focus brands. This work has included

## TRANSFORMATION IN ACTION

| May 2021 | Sept 2021 | 2021-22 | 2022 |
|---|---|---|---|
| New Global Consumer Office established | Consumer leadership team completed | New approach drives market share increase for flagship US brands | Innovation accelerated with launch of new NGP |

We start with the consumer, focusing on consumer insight and research to ensure we build a portfolio that suits them

redefining brand equity positioning, and working closely with digital, category and market teams to find new ways to engage consumers.

This is already delivering an improvement in aggregate market share across these markets. We have delivered market share gains in the US with Winston and Kool in the cigarette segment, and through a continued strong performance from Backwoods in the cigar segment. Another key shift in the strategy is to celebrate the heritage of our local brand portfolio in markets such as the UK and Spain. This local brand focus plays to our strengths and recognises consumer affection for these assets.

**Undertaking market trials to validate our approach to NGP**

Our ongoing validation of product, brand positioning and consumer experience continues at pace. The proximity of the entire NGP team to our insights, innovation and marketing teams has enabled us to leverage the same consumer insights and data used by combustible tobacco teams, and in turn offers a holistic view of consumer behaviour and preferences – all of which continues to inform our approach to testing NGP in prioritised geographies. Consumer feedback from our NGP trials has given us actionable suggestions on how we can improve our propositions. In the Czech Republic, for example, heated tobacco consumers indicated a demand for a wider range of heat stick flavours. We launched two new flavours in response, and consumer reaction has been positive.

**Building our innovation capabilities**

We are reorienting our innovation capabilities to provide consistent and coherent consumer experiences across combustibles and NGP. We are doing this by exploring and integrating the latest ways of working and we have reorganised to work in more agile ways. We are also embracing external partnerships so that we are unencumbered by ownership of an entire value chain in a world where technologies and products are evolving quickly. We have created a partner ecosystem, and these partners are working with us on our innovation agenda across flavour, device, digital, sensory and packaging. This gives us the ability to test and learn from consumers as we innovate.

'Connections' will be an integral part of the way we set performance expectations and how we lead, recognise and reward people

# TRANSFORMING OUR CULTURE

We're embedding a performance-based culture across the business.

CRITICAL ENABLERS

Our new strategy launched in January 2021 identified the development of a performance-based culture and capabilities as a key enabler to successfully delivering our strategy.

This reflects the importance of harnessing the skills, the performance, and the potential of every colleague in pursuit of our strategic goals.

In October 2021, following extensive consultation with colleagues across all markets and functions, we launched 'Connections', our new purpose, vision and behaviours, to all 26,000 of our employees through our first global conference.

Our five behaviours are: Start with the Consumer; Collaborate with Purpose; Take Accountability with Confidence; Be Authentic and Inclusive to all; and Build our Future.

We are now rolling out a highly structured, multi-year programme, where all of our colleagues are expected to invest considerable time immersed in thinking about our behaviours and improving their broader capabilities.

By the end of December 2022, every one of our employees around the world will have experienced development to gain an understanding of these behaviours, and what they mean for them in their role.

This has been supported by leadership events featuring case studies demonstrating how our businesses and functions are applying the five behaviours to create positive operational and financial outcomes. Events in 2022 featured inspiring stories from markets as diverse as the US, Romania, Ivory Coast, Saudi Arabia and global travel retail. These activities have been underpinned by an internal communications campaign which has included online resources and new Connections branding across offices and factories.

A recent pulse survey across our top 500 senior leadership population has shown that 93% understand our behaviours and what they mean for them in their role.

The next phase of our cultural transformation is to embed Connections into our performance management framework for our 2023 financial year. Connections will be an integral part of the way we set performance expectations and how we lead, recognise and reward people.

The bonus plan for all 1,200 of our senior leaders will measure and reward "how individuals deliver", through the demonstration of our behaviours, as well as "what they deliver". A further 5,000 of our people will be aligned to the new performance framework in the coming year.

Development planning will be a separate conversation to objective setting, with dedicated focused time given to this important activity.

This approach will require our managers to further develop how they set both performance and behavioural objectives and how they coach, develop and support their teams to optimise performance and unlock potential. During the next 12 months we will invest in focused leadership development to deepen these skills with the aim of ensuring regular and meaningful performance conversations.

In addition, functions and regions have gone through a detailed process, known as Leading Sustainable Change, to align their goals with our purpose, vision and strategy.

While the development of a global performance-based culture will take time to accomplish, we have a clear plan and commitment at all levels of the Company to deliver on it.

We will utilise regular employee experience surveys and targeted leadership pulse surveys in order to measure and report on our progress, with key performance indicators to be developed in 2023.

### HOW OUR IMMERSIVE CONNECTIONS SESSIONS WERE RECEIVED BY OUR COLLEAGUES

"This is the best training I've ever had."

"The workshops have been enlightening... I have enjoyed the meaningful interaction with colleagues around the business."

"A lot of useful learning tools and tips... to transform behaviour and work collaboratively."

"I was extremely sceptical of the invite... on reflection, every second was well spent."

"Excellent tools... after 25 years in Imperial this was new for me."

### TRANSFORMATION IN ACTION

**Jan 2021**
Strategy launch sets out case for culture change

**Spring/Summer 2021**
Consultation with colleagues to develop purpose and vision

**Oct 2021**
New purpose, vision & behaviours unveiled at first-ever all-colleague conference

**Nov 2021**
Immersive Connections sessions start

**Feb 2022**
First top 500 leadership event showcases new behaviours in action

**Spring 2022**
Global office and factory rebranding

**Sep 2022**
Connected Leadership coaching launched

# SIMPLIFIED AND EFFICIENT OPERATIONS

We are designing global processes and digital strategies.

CRITICAL ENABLERS

Imperial emerged as the world's number four tobacco business through bold acquisitions over the past two decades. These transactions have given the Company significant positions in some of the world's most attractive markets and a stable of strong brands. Our new strategy identified a need to go further in integrating this portfolio of businesses to create simpler, more efficient operations, enabling us to better capture future opportunities. Two years on, our transformation is well underway with significant structural changes, the introduction of new capabilities, and investment in digital.

We have restructured our sales and marketing operations to remove complexity, support faster decision making, and enable resources to be focused on the biggest opportunities. We have restructured our regions to allow a greater focus on our largest market, the United States, and develop our AAA region as a centre of expertise for emerging markets. We have also rationalised the number of clusters and defined clear operating models for our large, medium-sized and small markets. These changes have been supported by a rigorous new system of monthly performance management.

We have also been introducing new capabilities, enabling us to catch up with best practice across the wider consumer packaged goods sector. A major focus has been the development and embedding of our new Global Consumer Office, which seeks to strengthen our marketing capabilities by joining up resources across markets, improving innovation capability and focusing our next generation product (NGP) agenda. Our drive towards greater consumer centricity is covered in more detail on pages 20-21.

Work is now underway to streamline our global processes and systems to ensure that our resources are better allocated towards the customer and consumer-facing areas of the business – with a particular focus on our five priority markets.

In Global Supply Chain, we are integrating our ways of working so that we are able to respond to changes in consumer demand with greater agility. We are working towards enhanced end-to-end oversight, visibility and budget ownership from forecasting demand to fulfilling customer orders. In our business partnering functions – including Finance, Procurement, IT and People & Culture – we are changing to provide more strategic support to our sales, marketing, and manufacturing teams.

These changes are all being supported by significant digital improvements. These include our five-year, £300 million investment in an all-new Enterprise Resource Planning (ERP) system, which will replace 60 local legacy systems. This is a once-in-a-generation opportunity to enhance the speed, integrity and availability of business information, improving our decision making and agility.

The actions we have taken to date will deliver annualised cost savings of around £120 million, and we are on track to realise annual savings of £150 million on completion of our programme at the end of our 2023 financial year. As outlined in our strategy, these savings are being re-invested in the new capabilities that will support sustainable growth.

Our continued programme of initiatives and investments to create a simplified and efficient organisation will bring agility and resilience, and support the development of a performance-based culture, covered in more detail on pages 22-23.

Two years on, our transformation is well underway with significant structural changes, the introduction of new capabilities, and investment in digital

**Investment in new ERP system**

**£300m**

## TRANSFORMATION IN ACTION

| 2021 | | 2022 | |
|---|---|---|---|
| New performance management approach introduced | Market clusters reduced from 13 to 10 | Changes to business support functions | Investment in new ERP system announced |

# WHY INVEST IN IMPERIAL?

We have enhanced our investor proposition by building a stronger and more consumer-focused business as well as through our clear capital allocation framework, which supports investment in our new strategy, maintains a strong and efficient balance sheet and delivers enhanced shareholder returns. Our investment case rests on five pillars.

### 1. REVITALISED TOBACCO BUSINESS DRIVING STRONG CASH RETURNS

The tobacco value creation model remains resilient, with affordability and strong brand loyalty supporting sustainable pricing. By focusing on our top five combustible markets that generate c.70% of operating profit contribution, and with selective investment in brand equity and our sales force, we are starting to stem market share losses. This, together with strong performance from our broader portfolio and the exit from select markets, underpins the generation of improving cash returns from our combustible business.

**c.70%**

**of profit contribution comes from top five combustible markets**

### 2. NGP BUSINESS PROVIDING OPTIONS FOR POTENTIAL HARM REDUCTION AND GROWTH

Next generation products have growth potential as they are still a relatively nascent category in the majority of markets. We seek to build a sustainable NGP business through a relentless consumer focus, focusing on offering consumers a choice where they have already expressed an NGP preference and where we can leverage our existing customer relationships.

### 3. SELF-HELP INITIATIVES DELIVERING OPERATIONAL IMPROVEMENT AND STRENGTHENING PERFORMANCE

Continued investment and operational improvements will enhance financial performance as we focus on making our enabling functions more efficient. We are placing the consumer at the centre of our business and our decision-making. We are adopting a challenger mindset and embedding behaviours to support a performance-based culture.

## 4. GENERATING STRONG SUSTAINABLE CASH FLOW FROM A HIGH-QUALITY PORTFOLIO

The business remains highly cash-generative with low capital intensity, a working capital focus and disciplined capital expenditure producing adjusted operating cash conversion of typically 90% to 100%. With the foundations for growth in place, expectations are to deliver a three-year mid-single-digit compound annual growth rate in adjusted operating profit.

## 5. ENHANCING CAPITAL RETURNS THROUGH PROGRESSIVE DIVIDEND AND SHARE BUYBACK

We have clear capital allocation priorities: (1) targeted investment to support our strategy, (2) a strong and efficient balance sheet with an investment grade credit rating, (3) a progressive dividend policy reflecting underlying performance, and (4) to return surplus capital to investors via a share buyback.

## PHASE 2 OF OUR FIVE-YEAR PLAN

Our five-year plan is delivering a stronger financial outlook. Having completed the initial two-year strengthening phase of our strategy, we are now focused on delivering improved performance over the remaining three years of our plan.

| | Improving returns FY23 to FY25 |
|---|---|
| **Net revenue** | Gradually improving trajectory with compound annual growth rate of 1-2% |
| **Adjusted operating profit** | Delivering improving profit growth through operational leverage, better geographic mix from continued stabilisation of priority market shares, reducing losses from our investment in NGP and restructuring cost savings<br>Compound annual growth rate in mid-single-digits |
| **Adjusted cash flow** | Adjusted operating cash flow conversion typically between 90% and 100% |
| **Dividend** | Progressive dividend policy reflecting underlying performance |
| **Leverage** | Committed to investment grade credit rating, with leverage at the lower end of the 2.0x to 2.5x net debt/ EBITDA range |
| **Enhanced capital returns** | An ongoing share buyback programme to return surplus capital, with up to £1 billion committed in FY23 |

Further information on our strategy can be found on pages 12 to 25.

# HOW WE ARE PERFORMING

We use key performance indicators to assess the progress we are making in delivering our purpose, vision and strategy.

## FINANCIAL KPIs[1]

### Aggregate priority market share vs prior year (%) R




Performance
Our "focus on our priority markets" has led to encouraging progress with an increase in aggregate priority market share vs prior year, following several years of decline. Gains in the US, UK, Spain and Australia offset a decline in Germany.

### NGP net revenue (£m)

Performance
NGP revenue grew by 10.8% on a constant currency basis in the year. This growth in our NGP revenue reflects our strategic priority to "build a targeted NGP business". This metric will be used as a bonus performance criterion for Executive Directors from FY23.

### Tobacco & NGP net revenue (£bn)




Performance
Tobacco & NGP net revenue grew by 2.7% at actual exchange rates and increased by 1.5% on a constant currency basis. Tobacco net revenue was up 1.3% at constant currency, reflecting progress made in the two combustible strategic priorities of: "focus on our priority markets" and "driving value from our broader portfolio".

* £7.7bn excluding Premium Cigar Division disposal.

### Tobacco & NGP adjusted operating margin (%)




Performance
Margins improved primarily due to lower NGP losses reflecting our strategic priority to "build a targeted NGP business". We also benefited from our focus to "drive value from our broader portfolio" as we exited the lower profitability markets of Japan and Russia during the period.

* 42.1% excluding Premium Cigar Division disposal.

### Adjusted earnings per share (pence) R

Performance
Adjusted earnings per share was up 4.9% on a constant currency basis, excluding a currency tailwind of 2.5%. Reported earnings per share declined 42.8%. This movement is explained in the Group Financial Review.

* 247.2p excluding Premium Cigar Division disposal.

### Dividend per share (pence)




Performance
The dividend grew 1.5% reflecting our progressive dividend policy. This follows the Board's decision in May 2020 to rebase the dividend by one-third to accelerate debt repayment, which we have achieved.

### Adjusted operating cash conversion rate (%) R




Performance
2022 adjusted operating cash conversion of 102% reflected neutral working capital in the year compared to a working capital outflow in FY21.

### Net debt to EBITDA (multiple) R

Performance
In line with our strategy to reduce leverage, net debt to EBITDA was 2.0x and is now in our target range. The improvement in the ratio was mainly a result of strong cash flow generation.

R KPIs used as bonus and LTIP performance criteria for Executive Directors. See Remuneration Report on pages 130 to 148 for more information

1. Definitions for financial KPI's can be found in Supplementary Information.

## NON-FINANCIAL KPIs[1]

More non-financial performance indicators can be found in the ESG Review on pages 40, 42, 43, 45, 47, 54 and 55 and in our Reporting Criteria document available on our website.

### Return on invested capital (%) R

Performance
Return on invested capital improved in the year by 120bps to 17.7% driven by the increase in adjusted operating profit and the reduction in annual average capital.

### Energy consumption (GWh)

Performance
We have seen a 19% decrease in energy consumption from our baseline year. Our target is to reduce energy consumption by 25% by 2030. We remain on track to achieve that target.

Our 2022 relative energy consumption is 91,364 KWh/£m net revenue.

### Absolute $CO_2$ equivalent emissions (tonnes)

Scope 1
Scope 2

Total value is total Scope 1 and Scope 2 absolute CO2e emissions

Performance
We have seen a 19% decrease in our total Scope 1 and 2 emissions from our 2017 baseline. Our target is to be at Net Zero in our direct operations by 2030. We have also set a Scope 3 target, to be Net Zero by 2040.

### Total shareholder return R

Imperial Brands total return
FTSE 100 index total return

Performance
Total shareholder returns continued to rebound in the year, growing 31%, as our results were in line with our guidance and market participants gained confidence in our new management team and our strategy delivery. Over the prior ten years, Imperial Brand's total return remains below that for the FTSE 100 index.

### Waste (tonnes)

Performance
We have seen a 15% decrease in waste from our 2017 baseline year. The slight increase in waste of 0.6% we have seen compared to last year is due to increased production volumes at our McAdoo site. Our target is to reduce waste by 20% by 2030.

### Lost time accident frequency rate (per 200,000 hours)

Performance
We have seen a 11% reduction in the LTA rate compared to last year and a 40% reduction compared to the 2019 baseline year. Our target is to achieve a 75% reduction in LTA rate from the baseline year by 2030.

We are utilising targeted leadership pulse surveys to measure and report on the progress of our cultural change programme and will develop KPIs to track this in 2023.

1. Definitions for non-financial KPI's can be found in the ESG Review on pages 35 to 58 and in the Reporting Criteria Report available on our website.
2. 2020, 2021 and 2022 non-financial information data has been independently assured by EY. Our Reporting Criteria Document contains detail on definition and scope of all non-financial KPIs.
3. See www.imperialbrandsplc.com/sustainability for more information.
4. Our 2022 environmental data follows the reporting period Q4 financial year 2021 to Q3 financial year 2022. This is to allow for data collection, validation and external assurance. In FY22, we reset our baseline and subsequent years' data for Scope 1 and 2 GHG emissions to make it consistent with the latest guidance from the Greenhouse Gas Protocol and CDP. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.
5. Our health and safety data is for the full 2022 financial year. Our reporting scope and definitions are detailed in the Reporting Criteria Document published on our website.

# BUILDING TRUST WITH OUR STAKEHOLDERS

Building and maintaining trust with our stakeholders underpins the success and reputation of Imperial Brands. Through stakeholder collaboration we aim to develop the Company, minimise our environmental impact, make a positive social contribution and uphold high standards of governance.

This section of the Annual Report provides insight into how stakeholder engagement is taken into consideration by the Board and the Executive Leadership Team (ELT) in their decision-making processes. It goes on to describe how we monitor the effectiveness of our engagement.

The Board's decision-making process is brought to life in our Section 172 statement on pages 108 to 112 which references specific recent examples.

Further information on how the Board has considered stakeholders when making key decisions is also given on the following pages and in the Governance Report on pages 108 to 112.

## CONSUMERS

Our strategy starts with our consumers. Millions of adults worldwide choose to enjoy our tobacco and next generation products. The better we understand the preferences of our consumers, the better we are able to serve them. This helps us grow our business, and it helps us identify and capitalise on opportunities as a challenger business.

### How the Board considers this stakeholder

- The Board participated in a number of consumer immersion events over the course of the year, in the UK, Spain and the US. These afforded Board members the opportunity to get closer to the consumer by hearing directly from them about their habits, likes and dislikes. Board members were also able to discuss matters important to both combustible and nicotine product consumers, including the dynamic between local and international brands. The Board was also updated on the impact of the cost of living crisis on consumers.
- A tour of our Greensboro factory during the Board visit to the US also helped Board members understand the full life-cycle of the products our consumers enjoy.

### How we engage with this stakeholder

- Consumer roundtables and focus groups are held – virtually where COVID-19 restricted face-to-face meetings – to understand consumers' specific requirements and changing preferences.
- Feedback from these focus groups is used in our decision-making for investments in brand refreshes and marketing.
- The Global Consumer Office, headed by the Chief Consumer Officer, leads consumer-listening initiatives across the Group.

### What matters to this stakeholder

- Our focus groups informed us that adult consumers want a choice of brands and quality products at the right price points.
- Feedback has also shown us that consumer preferences such as cigarette pack formats, flavours and filters, as well as the choice of potentially less harmful NGP, evolve over time.
- Our focus groups have shown us that listening to these needs and remaining relevant underpin consumer loyalty to brands.

### How we monitor the effectiveness of our engagement

- We hold regular consumer focus groups to assess the impact of our brand refreshes and marketing campaigns on consumers.
- We believe market share changes across products, channels and geographies reflect the effectiveness of our engagement with consumers.
- Regular data-led updates from the Global Consumer Office provide the Board with evidence and an opportunity to challenge assumptions when making decisions related to our product portfolio.

## COLLEAGUES

Our colleagues are Imperial's most important asset and are critical to the success of the business. It is essential we create a supportive, safe and rewarding work environment to enable them to deliver our goals and develop their careers. We believe that a diverse and engaged workforce is imperative for business success.

### How the Board considers this stakeholder

- Collective responsibility for workforce engagement has been embedded into the Board's governance framework in the remit of the redefined People and Governance Committee.
- The Board held four Meet the Board events with groups of colleagues during the year. These events gave the Board the opportunity to hear colleagues' perspectives as part of our overall engagement strategy. This engagement allows the Board to incorporate colleagues' views into its decision making.
- The Board also engages with a broad cross-section of employees by way of dinners with teams, informal drinks and site visits.
- The Board receives regular feedback from our employees through updates at the People and Governance Committee. These include the results of our pulse surveys which gather the views of colleagues on particular topics, for example the progress of our "Connections" workshops and the work of our Employee Resource Groups (ERGs).
- The Board met to consider the implications of the Russian invasion of Ukraine. Its prompt action allowed the Company to safeguard the interests of our Russian colleagues by transfering the business as a going concern. The long-term interests of our colleagues in Ukraine were a key factor in this decision.

### How we engage with this stakeholder

- During the year, following extensive consultation we launched "Connections", our new purpose, vision and behaviours through our global all-staff conference. All colleagues have experienced training to enhance their understanding of these behaviours, and what they mean for them in their role.
- We continued to hold CEO and leadership town hall meetings, in person and virtually, providing opportunities for colleagues to give feedback directly to the ELT.
- Feedback from our four ERGs, focusing on gender, ethnicity, LGBTQ+ and disability, has helped us to understand how better to co-create strategies and policies for including underrepresented groups.
- We use various channels including our intranet and IB News to ensure regular internal communication with colleagues.

### What matters to this stakeholder

- Our colleagues want to see continued progress on equality and diversity and to feel included. They want to see that issues of authenticity and inclusion around gender, ethnicity, LGBTQ+ and disability are taken seriously throughout the Company.
- They want to see that responsibility and accountability are underpinned by a fair assessment of contribution.
- Colleagues want to see senior management lead the new behaviours by example to create an environment where innovative approaches are encouraged and we learn from our failures.
- Health, safety and wellbeing continue to be a priority in the workplace.

### How we monitor the effectiveness of our engagement

- We review the results of our annual workforce engagement "Have Your Say" survey.
- We review the results of our interim pulse surveys.
- The ESG Committee, chaired by the CEO, receives feedback from the ERGs. In addition, as each ERG is sponsored by a member of the ELT and co-chaired by members of senior management, feedback from colleagues on how the Company is progressing in relation to inclusivity concerns is given to the ELT via these sponsors.
- Feedback is obtained during the Board listening sessions.
- We collate feedback from exit interviews to find out why employees choose to leave us.

## CUSTOMERS

Where it is difficult to engage directly with consumers, engaging with retailers provides useful insights into our consumers' behaviour and preferences. This helps us grow our business, even where there are regulatory headwinds, and identify opportunities to be a successful challenger. We work closely with distributors, wholesalers and retailers to ensure our products are available to adult consumers in a diverse range of outlets. These stakeholders play a crucial role in our business model.

### How the Board considers this stakeholder

- The Board has participated in store visits in the UK, Spain and the US over the last year. These visits provide the opportunity to talk directly to retailers.
- Our CEO meets with customers regularly throughout the year.

### How we engage with this stakeholder

- Our market cluster leadership teams engage with our customers to understand how to improve the effectiveness of their sales forces.
- We work closely with our distributors to understand how we can best manage our relationships, and have a dedicated team to support distributor sales and build best practice in distributor management across the Company.
- We use key account management practices to engage with our largest customers to better understand their needs and to create strong commercial partnerships to help our businesses create value together.

### What matters to this stakeholder

- A diverse portfolio of quality products that appeal to consumers.
- Consistent communication on the launch pipeline and investment behind relevant brands in their region.
- Ease of ordering and a strong supply chain to maintain high levels of on-shelf availability.
- Support to protect against illicit trade and underage sales.
- Support and guidance through industry changes, e.g. initiatives to help customers manage their business through regulatory change such as display bans or plain packaging.
- Trade programmes that reward customer business growth.

### How we monitor the effectiveness of our engagement

- We monitor our performance relative to other FMCG companies through the Advantage Survey and other benchmarking surveys. Feedback from these surveys is reviewed and taken into account in our engagement plans and in setting priorities.
- We hold management roundtable events with regional customers to hear first-hand how Imperial is performing relative to peers.
- A quarterly pulse report provides performance feedback which is used to highlight areas for improvement.
- We have KPIs to monitor progress against operational initiatives.

## GOVERNMENTS AND REGULATORS

Approaches to legislation vary significantly across geographies. We support reasonable regulation of tobacco and nicotine products and look to have constructive engagement with policy makers and regulators.

### How the Board considers this stakeholder

- Our corporate strategy includes a commitment to building an NGP portfolio of potentially reduced harm products.
- The Board approves our Modern Slavery Statement annually.
- Regular updates on regulatory matters are provided to the Board.
- Following his appointment, our Chief Legal & Corporate Affairs Officer has presented to the Board both on the US regulatory environment, during the Board's visit to our US business, and on the Group's key regulatory risks and our corporate affairs strategy to manage these risks.

### How we engage with this stakeholder

- Whilst management is primarily responsible for understanding and ensuring compliance with applicable laws and regulations, the Board also looks to encourage direct constructive engagement.
- We monitor changing regulations in our markets and assess the impact on our existing portfolio and innovations.
- We assess regulatory impact on pack design and marketing support around brand launches.
- This monitoring allows the Board to take relevant legislation and regulation into account when making its decisions.

### What matters to this stakeholder

- Tobacco excise revenues and public health spending on smoking-related health issues.
- Assessment of reduced harm from NGP.
- Compliance with local laws and regulations.
- Confidence that our business is operating legally and responsibly in each government or regulator's region.
- Collaboration with law enforcement agencies countering illicit trade and preventing youth access to tobacco and nicotine products.

### How we monitor the effectiveness of our engagement

- We monitor the approval of the listing of our products in various markets.
- We review proposed new regulation and the Company's ability to be involved in the development of reasonable and rational regulation.
- We monitor feedback and complaints from regulators.

## INVESTORS

Our investors provide capital to the business and monitor management's allocation of that capital within the business.

### How the Board considers this stakeholder

- Our CEO, CFO and Chair have regular meetings with our major investors to update them on our performance, hear their views directly and consult with them.
- The Board receives a report at every meeting on investor engagement, as well as a feedback report following all investor events.
- During the year, the Board commissioned an investor perception study to gather feedback on our strategy, performance and communications.
- Our AGM provides an opportunity for the Board to meet with investors.
- Sue Clark, Chair of our Remuneration Committee, wrote to investors in July 2022 about ESG metrics and, together with the Global Reward Director, hosted follow-on investor calls where requested. Further details of the ESG metrics can be found in the Directors' Remuneration Report on page 132.

### How we engage with this stakeholder

- Our Annual and Interim results presentations inform investors how the business is performing.
- We maintain a programme of active dialogue with our key financial stakeholders, including institutional shareholders, potential investors, holders of our bonds and sell-side research analysts.
- Our CEO hosted two webinars during the year for investors and analysts. In March, the US management team presented on how Imperial Brands' consumer-centric strategy is gaining traction in the US market. In September, the Global ESG Director together with senior management outlined how we have refreshed our approach to our ESG agenda to further support our strategy.
- Senior management supported a new bond issue in July 2022, including an investor roadshow to market the bond.
- Senior management present at various industry conferences.

### What matters to this stakeholder

- Confidence in the Board that it has appropriate oversight of the management team.
- Trust in the management team to have a strategy and operational plan to optimise value creation and ensure the long-term sustainability of returns.
- The setting of realistic expectations combined with transparent reporting of performance against KPIs, both financial and non-financial, including ESG metrics.
- Disciplined capital allocation.

### How we monitor the effectiveness of our engagement

- Our CEO, CFO and Chair engage with investors to gather feedback on how we are performing against our strategy.
- Topics discussed during the year included the actions taken to improve performance, progress with executive and non-executive recruitment, capital allocation considerations and ESG.
- The Board receives an investor relations update at every Board meeting, which sets out the latest investor views, share register movements and recent market developments.
- Detailed feedback from investors is collected after each investor event and roadshow, which is shared with and discussed by the Board so it has a good understanding of investor views.
- Key findings from the investor perception study included widespread support for Imperial's strategy, capital allocation policy, management team and operational progress to date. Shareholders would like to see progress in NGP and signs of the overall financial performance of the Group improving into the next three-year phase of the plan.

## SUPPLIERS

We maintain strong relationships with our tobacco, non-tobacco materials (NTM) and NGP suppliers to help ensure sustainable supply and business continuity, ensuring fair contract and payment terms. We are conscious of the key dependencies in our supplier relationships, especially those partners we are relying on to support delivery against our strategic objectives. We are working to increase the resilience of these relationships, including by building out our business continuity capability at Group level, and deepening our understanding of critical dependencies.

Working in partnership with our suppliers ensures we have the right resources in place to respond with agility to global challenges, and supports our growth.

### How the Board considers this stakeholder

- The Board approves our Modern Slavery Statement annually.
- Suppliers within our supply chain are included as part of the Board's ESG considerations.
- During the year we reviewed the risk posed to suppliers, including in respect of logistics arising from COVID-19, as well as other economic and geopolitical influences.
- Factory and site visits help the Board understand the complexities of our global supply chain.
- Our Chair and CEO visited Africa during the year, where they met with the CEOs of our two largest tobacco leaf suppliers.
- Supplier considerations were intrinsic to our response to the Ukraine crisis, in particular the Board decision to exit Russia.

### How we engage with this stakeholder

- Our Supplier Qualification Programme is a screening process for all new NTM and NGP suppliers, requiring completion of a self-assessment on business conduct, environmental management, and labour practices such as discrimination, child and forced labour, freedom of association, remuneration, working hours, and health and safety.
- All our leaf suppliers are expected to participate in the Sustainable Tobacco Programme (STP).
- Through our leaf partnership projects we support communities in tobacco-growing countries identified as having the most need.
- Our Supplier Code of Conduct helps ensure we engage suppliers that offer resilience in our supply chain and security in our technology platforms.

### What matters to this stakeholder

- Our support with Leaf Partnership projects focusing on having an impact on important issues in the countries from which we source our tobacco, including Malawi, Mozambique, Indonesia, India, the Philippines, Dominican Republic, Honduras and Turkey.
- We set and abide by fair contract and payment terms.

### How we monitor the effectiveness of our engagement

- We operate a vendor rating system for our key NTM suppliers, and carry out annual business reviews.
- The STP supports the sustainable supply of quality tobacco leaf. It is a framework to improve labour standards, raise standards of living and address environmental challenges by sharing good agricultural practices.
- The annual STP assessment is part of our formal supplier relationship management. It forms part of the suppliers' ratings that we determine along with quality, cost and value.
- We carry out online engagement and performance reviews.

# NON-FINANCIAL INFORMATION STATEMENT

The following table constitutes our Non-Financial Information Statement in compliance with Sections 414CA and 414CB of the Companies Act 2006. The information listed is incorporated by cross-reference. Additional Non-Financial Information is also available on our website.

| Reporting requirement | Policies and standards which govern our approach[1] | Information necessary to understand our business and its impact, policy due diligence and outcomes | |
|---|---|---|---|
| **Environmental matters** | • Occupational health, safety and environmental policy and framework<br>• Sustainable Tobacco Programme | Environmental targets | **29, 41, 44, 62, 64** |
| | | International management systems | **42, 59 to 65** |
| | | Climate and energy | **29, 41 to 43, 59 to 65** |
| | | Reducing waste | **29, 44, 45** |
| | | Sustainable tobacco supply | **37, 46 to 49** |
| **Employees** | • Code of Conduct<br>• Group-wide employment policy<br>• Fairness at work policy<br>• Occupational health, safety and environmental policy and framework | Diverse and engaged workforce | **55 to 57** |
| | | Workplace health and safety | **29, 52 to 54** |
| | | International management systems | **54** |
| | | Lost time accident (LTA) rate | **29** |
| **Respect for human rights** | • Human rights policy<br>• Code of Conduct<br>• Supplier Code<br>• Supplier qualification programme<br>• Modern slavery statement<br>• Speaking Up policy | Diverse and engaged workforce | **55 to 57** |
| | | Workplace health and safety | **29. 52 to 54** |
| | | Human rights | **50, 51** |
| | | International management systems | **54** |
| **Social matters** | • International marketing standards<br>• Fontem marketing standards<br>• Policy on taxation<br>• Community contributions and volunteering policy<br>• Information security policy | Human rights | **50 and 51** |
| | | Youth access prevention | **39** |
| | | Farmer livelihoods and welfare | **46, 47** |
| | | Charitable and political donations | **149** |
| **Anti-corruption and anti-bribery** | • Code of Conduct<br>• Fraud risk management policy<br>• Speaking Up policy<br>• Finance manual<br>• Group control matrix<br>• Supplier Code of Conduct | How we manage risk | **82** |
| | | Governance, risk management and internal control | **82 to 93** |
| **Description of principal risks and impact of business activity** | • Principal risks and uncertainties<br>• Governance, risk management and internal control | | **82 to 93<br>128, 129** |
| **Description of the business model** | • Our business model | | **10 and 11** |
| **Non-financial key performance indicators** | • Key performance indicators<br>• Sustainability performance indicators | | **29<br>42, 45, 48, 54, 55** |

1. Not all of our Group policies and standards are publicly available.

# OUR PEOPLE AND PLANET AGENDA

An important element of the foundation-building phase of our business strategy has been a refresh of our approach to environmental, social and governance (ESG) responsibilities.

**Tony Dunnage**
Global ESG Director

In January 2021, we outlined our new five-year strategy to transform Imperial into a business better able to deliver sustainable growth year in, year out. Later that year, we launched a new Company purpose and vision, defining why we are here and what we are trying to achieve. Our commitment to environmental, social and governance (ESG) issues is enshrined in these two statements. Our purpose expresses our ambition to build a "healthier future" and this applies not only to our consumers but also to our communities and planet. Our vision states that our pursuit of commercial success will be "powered by responsibility".

**Purpose:** Forging a path to a healthier future for moments of relaxation and pleasure.

**Vision:** To build a strong challenger business powered by responsibility, focus and choice.

Working with our employees, we also created five core behaviours that articulate what success looks like in our new culture, and these too are linked directly to our ESG commitments.

Following the launch of our strategy, purpose, vision and behaviours, we completed an ESG materiality assessment, listening to the views of consumers, customers, employees, investors and shareholders. This survey identified eight focus areas, which we have grouped into three broad categories: Healthier Futures, Positive Contribution to Society, and Safe & Inclusive Workplace. Each of our eight focus areas is also aligned to at least one of the United Nations' Sustainable Development Goals (UN SDGs). Alongside this work, we introduced a new ESG governance framework to ensure rigour in the way in which we set objectives and deliver on our commitments. See page 56 for further details. Our focus areas and the linked metrics and targets have been endorsed by the Board.

Executive Leadership Team sponsors have been appointed for each of our eight ESG priorities. This is intended to inspire engagement throughout the business. We believe this executive-level sponsorship puts us in a stronger position to deliver against our goals.

We have made external hires and promoted internal subject matter experts in order to build a strong team capable of delivering on our ambitious objectives.

For each of the eight priority issues, we are at varying levels of maturity, but we are committed to delivering our ambitions on all of them.

## TRANSFORMATION IN ACTION

| Jan 2021 | | | | | | | Sept 2022 |
|---|---|---|---|---|---|---|---|
| New strategy launched | Purpose, vision and behaviours unveiled | ESG materiality study completed | ESG Board and executive governance agreed | New ESG strategy developed | ESG strategy signed off by ESG Committee and Board | Internal "People and Planet" agenda launched | ESG priorities integrated into executive remuneration metrics. (introduced for FY23) |

We refer to ESG internally as our "People and Planet" agenda and our new approach was introduced to our top 500 senior leadership population in July 2022, through a series of webinars. This was followed by a roll out to all colleagues using digital and face-to-face channels.

In September 2022, we introduced our new ESG approach to some of our investors in a webinar. This focused on three of the eight priority areas: consumer health, climate change, and farmer livelihoods and welfare. We also highlighted the importance of the culture change programme. We have integrated ESG metrics for consumer health and climate into our executive remuneration for FY23. Please see page 132 for further details.

Further information on our People and Planet agenda is available on our website in our ESG Strategy document and our 2022 ESG: People and Planet Performance Summary.

Our Reporting Criteria document provides further information on ESG-related KPIs. To note: Logista remains out of scope for all ESG-related KPIs.

We report ESG-related information in accordance with the core options of the Global Reporting Initiative (GRI) Standards and against the Sustainable Accounting Standards Board (SASB) framework for tobacco. Details can be found in our 2022 GRI and SASB Index.

Further information in the Healthier Futures section of our website

## HEALTHIER FUTURES

### CONSUMER HEALTH

We are committed to strengthening our next generation products (NGP) and making a more meaningful contribution to harm reduction by offering adult smokers a range of potentially less harmful products.

### CLIMATE CHANGE

We are committed to reducing our impact on the climate throughout our value chain. Focusing on both mitigation and adaptation.

### PACKAGING AND WASTE

We are committed to minimising waste associated with our products, packaging and production processes.

## POSITIVE CONTRIBUTION TO SOCIETY

### FARMER LIVELIHOODS & WELFARE

We are committed to engaging with our suppliers to support and develop farming communities and promote sustainable agriculture.

### SUSTAINABLE & RESPONSIBLE SOURCING

We are committed to sourcing products and services in a compliant, sustainable and socially conscious manner. We will work with our suppliers to ensure continuous improvements.

SUSTAINABLE DEVELOPMENT GOALS

Our ESG strategy remains aligned with the United Nations Sustainable Development Goals.

## SAFE & INCLUSIVE WORKPLACE

### EMPLOYEE HEALTH, SAFETY & WELLBEING

We are committed to achieving world-class occupational health, safety and wellbeing for all our employees.

### DIVERSITY, EQUITY & INCLUSION

We are committed to creating a truly diverse and inclusive organisation renowned for celebrating difference, enabling our people to feel that they belong and be their authentic selves.

We will respect, recognise and value the diversity of our consumers and reflect the communities in which we operate.

### HUMAN RIGHTS

We are committed to raising awareness and improving processes in our supply chains recognising the importance, influence and role we have in promoting and protecting human rights.

HEALTHIER FUTURES

# CONSUMER HEALTH

We are committed to strengthening our next generation products (NGP) to make a more meaningful contribution to harm reduction, by offering adult smokers a range of potentially less harmful products.

## Consumer-led harm reduction strategy

We start with our consumers, focusing on consumer insight and research to ensure we build a portfolio that suits them. The only way we can make a material contribution to harm reduction is by getting ever closer to our consumers, understanding their needs and behaviours, and then innovating at pace and creating new compelling propositions.

**Tobacco Harm Reduction (THR)** = **Potentially Less Harmful Product** x **Consumer Acceptance**

As illustrated in the above equation, NGP have the potential to be less harmful to consumer health than tobacco. However, in order to do so, these new products must be accepted by consumers as alternatives to cigarettes.

This is why we believe harm reduction starts with the consumer.

## Behaviours

Start with the Consumer

## Link to SDGs

3 GOOD HEALTH AND WELL BEING

We are committed to tobacco harm reduction

We understand society's concerns about the health risks of smoking and recognise our role in helping to reduce the harm caused by combustible tobacco products.

Our ambition is to make a meaningful contribution to tobacco harm reduction. This ambition is also directly linked to target 3.4 of the UN SDG 3, which is "to reduce mortality from non-communicable diseases and promote mental health".

**Tobacco harm reduction starts with the consumer**. This means developing a deep understanding of the diverse lives of the world's one billion adult smokers, and the individual occasions when they choose to smoke. Smoking is deeply rooted in our cultures. People derive pleasure from smoking and many are reluctant to compromise on that pleasure. So, when we provide adult smokers with an alternative to combustible tobacco products, it is important to ensure their experience is as close to the experience of smoking as possible. Our products are focused solely on existing adult smokers.

Clearly, the best health-related outcome is for adult smokers to stop smoking. However, the next best option is to offer potentially harm reduced alternative products to those consumers who are uninterested or unwilling to stop smoking. We have found these consumers fall into two distinct categories and are likely to be attracted to different product types:

1. Willing to try new products but wanting an experience as close to smoking as possible.
2. A more health-conscious smoker, looking to find something potentially less harmful and likely to compromise somewhat on the experience but not fully.

By increasing NGP choice and improving the experience, tobacco companies can increase the number of adult smokers who choose potentially harm-reduced alternatives.

## The relative risk scale

An illustrative representation of the current scientific evidence:

**Our new NGP strategy is focused on driving consumer choice**. We have defined an approach which plays to our strengths and is centred on meeting consumer needs. As the smallest of the global players, it is not our role to create categories in markets. At this stage, we are focused on markets where an NGP category is already well established and where we can leverage our existing combustible routes to market.

Once we have identified which markets are attractive to us, we seek to understand what our target consumers value most about their smoking experience. Having clearly understood the consumer dynamics, our role in these markets is then to provide greater consumer choice with a differentiated product offering that meets an untapped consumer need.

**NGP have the potential to make a significant contribution to harm reduction.** Products in other nicotine categories, whilst not risk free, differ from cigarettes in their risk profiles, as illustrated on the chart above. Current scientific evidence suggests NGP have the potential to significantly reduce harm, relative to continuing to smoke cigarettes. While each category of NGP has a differing risk profile, no NGP involve the burning of tobacco and so do not produce the smoke which is the primary cause of smoking-related disease.

**Persuading consumers to choose potentially reduced risk products requires innovation across the entire value chain**. For an adult smoker to choose a potentially reduced risk product, we need to ensure their journey is as frictionless as possible. This requires innovation across our supply chain, superior distribution networks, focused consumer insights and novel marketing models. We seek to substantiate the reduced harm potential through our scientific research in the laboratory, the clinic and once products are in market.

**Our products target existing adult smokers**. Our focus is on driving consumer acceptance, while recognising that not all consumers and markets are the same. There are different preferences and regulations across different markets, which is why we are taking a portfolio approach with our range of NGP.

Our heated tobacco product, for instance, is targeted at consumers who prefer multiple sessions between charging. We also know that some consumers prefer a compact heated tobacco device. This is why we have focused on these two key attributes for our first launches in heated tobacco with our Pulze product.

In vaping, feedback on our all-new blu 2.0 product launched in France suggests consumers find it among the best vaping experiences. It has a longer battery life and enhanced ergonomics, so it feels more comfortable to use. The new pods address the previous industry concerns over leakage, and the pods now dock neatly with a magnetic "click".

In modern oral, we are focused on improving taste and smell to better satisfy our target consumers – while delivering the nicotine that they want.

**Under-age people should never use our products**. Regulators have expressed concern that NGP could become a gateway to cigarette smoking for consumers who do not already smoke.

It is vital that any NGP use by "never-smokers", including youth, is minimised or eliminated altogether. NGP are for adult smokers and adult nicotine users only.

Our entire NGP philosophy reflects a no-tolerance approach to youth access through every stage of our products' life. This applies from conception, development and manufacturing through to perception and behavioural science, marketing and post-market surveillance. We maintain a strict responsible marketing protocol.

To reinforce our commitment to youth access prevention, we seek to ensure that regulatory requirements are implemented, adhered to and enforced.

We are committed to marketing and advertising our products responsibly within the laws, codes of practice and voluntary agreements of those countries within which we operate. Our commitment to responsible marketing and sale of our NGP and combustible tobacco products is summarised by our Marketing Principles detailed in the blue box overleaf. By collectively committing to responsible marketing and high product standards across the board, we can create a united front against youth access to tobacco and nicotine products. We are also developing a framework to assess, understand and act to mitigate the risk of underage[1] use. We intend to expand on this framework in 2023.

**We seek to substantiate the reduced harm potential of NGP through our rigorous scientific research in the laboratory, the clinic and once products are in market.** We firmly believe in starting with the consumer, and this is reflected in our commitment to improving the way we substantiate and communicate the tobacco harm reduction (THR) potential of our NGP to adult smokers in FY23 and beyond. We have refined our scientific assessment framework (SAF), which is a multi-stage, multi-year testing and research programme designed to evaluate the harm reduction potential of each of our NGP relative to combustible cigarettes. Our comprehensive consumer product safety programme ensures we are rigorously validating NGP safety profiles throughout their lifecycles. Simultaneously, we are scientifically assessing the THR potential and relative risks of our NGP compared to cigarettes, focusing on both individuals and wider populations. We believe the SAF is crucial in generating the necessary scientific proof points and evidence to build and maintain trust in NGP with consumers, regulators, public health and the media. We also think the comprehensive scientific assessment of these relative risks should form the basis of risk-proportionate, evidence-based regulation. Our SAF is therefore aligned with guidelines provided by leading global public health authorities and regulators.

We believe that the totality of the research generated by the SAF, alongside in-market consumer data on adult smoker switching/retention rates and the broader scientific literature, will ultimately confirm that our NGP contribute to improved consumer health outcomes compared to continuing to smoke, thus demonstrating our meaningful contribution to THR.

We continue to make our scientific research publicly available: find out more on our dedicated science website. We have published 30 peer-reviewed Imperial-authored papers, and delivered 25 presentations at conferences over the last five years.

## MARKETING PRINCIPLES

1. We only engage with adult consumers of tobacco and nicotine products.
2. Our marketing is honest and transparent.
3. We give our consumers the information they need to make informed choices.
4. We will never encourage people to start smoking or non-smokers to use recreational nicotine products, and never discourage consumers of our products from quitting.
5. We comply with the local laws, codes of practice and voluntary agreements which govern the advertising, promotion and sale of our products.

By the end of FY22, our commercially available NGP had achieved the following SAF completion[2] rates to demonstrate harm reduction potential:

## PROGRESS OF TESTING HARM REDUCTION POTENTIAL OF OUR NGP AGAINST THE SCIENTIFIC ASSESSMENT FRAMEWORK

| NGP type | | SAF progress | Scientific highlights |
|---|---|---|---|
| **Vape device**<br>myblu | % | **97** | Analysis of behavioural data from a 12-month longitudinal study shows 23.1% of smokers quit smoking with myblu after 3 months, 35.9% after 6 months, and 46.2% after 12 months. For smokers who did not quit, they reduced the number of cigarettes smoked per day on average by 51%. For blu 2.0 we have completed safety testing and assessment for launch, and SAF assessment continues. |
| blu 2.0 | % | **28** | |
| **Heated tobacco**<br>Pulze and iD | % | **62** | Our first clinical study[3] on Pulze and iD, with adult smokers with no intention to quit smoking, demonstrated a good safety profile and that the product reduces their desire to smoke. |
| **Tobacco-free oral nicotine pouch**<br>Zone X | % | **47** | We have now completed two clinical studies[4] on a range of Zone X nicotine strengths. They demonstrate the product has a good short-term safety profile, offers a satisfying alternative to combustible cigarettes and snus, and reduces the users' urge to use nicotine. |

1. Underage is defined as consumers under the age of 18 or a higher legal age for purchase.
2. Please note 100% SAF completion is not required for market product launch.
3. Study not yet published in the scientific literature.
4. Only one of these studies is currently published in the scientific literature.

HEALTHIER FUTURES

# CLIMATE CHANGE

We are committed to reducing our impact on the climate throughout our value chain, focusing on both mitigation and adaptation.

## Strong track record of performance

From our 2017 baseline year we have:

- Reduced our absolute Scope 1 and 2 carbon emissions ( $CO_2e$ tonnes) by 19%
- Reduced our absolute energy consumption (GWh) by 19%
- Reduced our absolute water consumption in our operations ($m^3$) by 28%

## Our plan

(from a 2017 baseline year)

### 2025

- 100% of our purchased grid electricity will come from traceable renewable sources
- Reduce absolute Scope 1 and 2 GHG emissions by more than 50%

### 2030

- 100% of energy sourced for our operations will be from renewable sources
- Be net zero in our direct operations (Scope 1 and 2 GHG emissions)
- Reduce our total carbon footprint (absolute Scope 1, 2 and 3 GHG emissions) by 30%
- Reduce absolute Scope 3 emissions by 20%
- Reduce energy consumption by 25%
- Reduce water consumption across our operations by 30%

### 2040

- Our value chain will be Net Zero emissions (absolute Scope 1, 2 and 3 GHG emissions)

## Behaviours

## Link to SDGs

We are taking action to combat climate change and its impacts.

As identified in our materiality assessment, climate change is a priority for us. We know that climate change represents a potential long-term risk across the whole of our value chain and to society in general. Disruption in climate and energy has the potential to impact our business from challenges as diverse as crop failure, asset destruction and interruption in distribution.

In line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we have explored the impact that climate change is likely to have on our value chain. Please see page 59 for details.

We monitor climate-related risks and put in place intervention or mitigation measures where necessary. Our targets on climate change also represent potential business opportunities. We expect to see cost and environmental benefits flow from our energy-saving and efficiency programmes.

We are focused both on curbing our use of energy and changing the mix of the energy we continue to use. Our ambitions are aligned to UN SDG 7: affordable and clean energy, specifically targeting points 7.2 and 7.3, which are to "increase the global percentage of renewable energy" and "double the improvement in energy efficiency".

Our first renewable energy site (for definition see our Reporting Criteria document), the Skruf plant in Savsjo, Sweden, is now acting as an exemplar for our other facilities as they work to further prove their energy efficiency.

We are currently evaluating options for our Scope 1 fuel transition and are engaging with external partners. We will be looking both at technology change and fuel transition, for example, through a switch to biogenic fuels.

Our Scope 3 emissions are those that we accrue from our value chain and we are working with our suppliers and other partners to better understand these emissions. We do this largely through the internationally recognised CDP Supply Chain Programme.

Although we do not have water-intensive manufacturing processes, we maintain a strong track record of managing water use effectively, having reduced consumption by 28% since our 2017 baseline year.

## NET ZERO BY 2040

We have a strong track record of reducing our environmental impact through energy efficiency and carbon emissions management. Since 2019, we have had Scope 1, 2 and 3 targets, consistent with reductions required to limit climate warming to 2°C, approved by the Science Based Targets initiative (SBTi). However, in FY21 we set our sights higher and joined the Business Ambition for 1.5°C Race to Zero initiative, a campaign led by the SBTi. This means we are now committed to reaching science-based Net Zero emissions by 2040. To achieve this, we have reset our science-based targets for carbon, increasing our ambition in line with 1.5°C global warming limits. These are detailed in "Our plan" which we will submit to the SBTi for their approval in FY23.

We have also set new energy targets which support our Net Zero emissions ambition. For example, during FY22 we took a Company decision to accelerate our transition to renewable electricity.

At the end of FY22, 52% of our purchased grid electricity was supplied by traceable renewable source

We will also continue to work towards validating our Scope 3 data.

**We have mapped a five-step approach towards Net Zero:**

1. Undertake energy efficiency initiatives.
2. Switch to 100% renewable grid electricity.
3. Transition all other energy types to renewable sources.
4. Achieve Net Zero in our operations.
5. Become climate positive, which means removing additional carbon dioxide from the atmosphere.

## CLIMATE CHANGE PERFORMANCE

| Performance indicator | Unit | 2017 (base year) | 2020 | 2021 | **2022** | Commentary |
|---|---|---|---|---|---|---|
| **Operations with ISO 14001 certification** | % | 92 | 86 | 78 | **83** | Travel restrictions resulting from the COVID-19 pandemic adversely impacted recertifications in 2020 and 2021, but these are now increasing. We aim to continue increasing certification levels in FY23. |
| **Absolute energy consumption[1]** | GWh | 875 | 773 | 729 | **712[A]** | Within our Net Zero ambition, one of the targets is to reduce energy consumption by 25% by 2030 versus a 2017 baseline. In FY22, energy consumption had reduced by 19% compared to 2017 and therefore we are on track to achieve this target. |
| **Relative energy consumption[1]** | KWh/£m net revenue | 112,801 | 96,625 | 95,740 | **91,364[A]** | In compliance with the UK streamlined energy and carbon reporting (SECR) requirements, our total UK energy consumption was 12.42 GWh which is 1.74% of the global total (2021: 13.46 GWh and 1.84%). |
| **Electricity from purchased renewable sources[1]** | % | 8 | 5 | 6 | **52[A]** | We purchase Renewable Energy Certificates (RECs) from within the same market boundary as electricity is being consumed, where possible, as defined by CDP. In markets where the means to purchase renewable electricity is less developed, we purchase from a nearby geographical location, but keep this under constant review with an intention to purchase from within the same market boundary once a source becomes available. |
| **Absolute Scope 1 $CO_2e$ emissions[1]** | Tonnes | 114,270 | 105,242 | 92,900 | **91,007[A]** | Our Scope 1 emissions arise from stationary fuel combustion at our sites, refrigerant gases, and mobile fuel combustion in our fleet of Company sales vehicles. We have seen a 2% decrease in Scope 1 emissions since last year and a 20% reduction from our 2017 baseline year. |
| **Absolute Scope 2 $CO_2e$ location-based emissions[1]** | Tonnes | 161,360 | 131,463 | 133,292 | **131,236[A]** | Our Scope 2 emissions comprise the indirect emissions resulting from the use of purchased electricity, heat and steam at our sites. We have seen a 1.5% decrease in Scope 2 location-based emissions since last year and a 19% reduction from our 2017 baseline year. |
| **Absolute Scope 2 $CO_2e$ market-based emissions[1]** | Tonnes | 173,902 | – | – | **84,759[A]** | We report Scope 2 location-based and market-based emissions according to the GHG Protocol Scope 2 Guidance (2015) and CDP guidance. We have seen a 51% reduction in emissions compared to the 2017 baseline year. |
| **Total absolute Scope 1 and 2 location-based $CO_2e$ emissions[1]** | Tonnes | 275,630 | 236,887 | 226,192 | **222,243[A]** | We have seen a 19% decrease in our total Scope 1 and 2 emissions from our 2017 baseline. Our target is to be at Net Zero in our direct operations by 2030. We have also set a Scope 3 target to be Net Zero by 2040. |

| Performance indicator | Unit | 2017 (base year) | 2020 | 2021 | 2022 | Commentary |
|---|---|---|---|---|---|---|
| **Relative Scope 1 and 2 location-based $CO_2e$ emissions[1]** | Tonnes/£m net revenue | 35.5 | 29.6 | 29.7 | **28.5[A]** | In compliance with the UK SECR requirements, our total UK Scope 1 and 2 emissions were 2655 tonnes $CO_2e$ emissions, which is 1.19% of the global total (2021: 2975 $CO_2e$ emissions and 1.24%). |
| **Scope 3 $CO_2e$ emissions: business travel[1]** | Tonnes | – | – | 1,837 | **5,901[A]** | Business travel is travel undertaken for work or business purposes. Increased emissions from business travel in FY22 reflect the easing of COVID-19 restrictions enabling increased business travel. |
| **Key suppliers by spend with science-based targets** | % | – | 38 | 41 | **34** | We aim to ensure that 50% of our suppliers by spend will have set science-based targets by 2024. In 2022 we more than doubled the number of suppliers in scope to 104 (2021: 51) and of these 34% had set science-based targets. |
| **Logista absolute Scope 1 and 2 $CO_2e$ emissions** | Tonnes | 38,554 | 38,407 | 45,557 | **–** | Logista is managed remotely due to commercial sensitivities and has provided independently assured data for absolute Scope 1, 2 and 3 emissions. Data for 2022 is still undergoing independent assurance. In 2021 Logista significantly increased transport activity under their operational control which resulted in an increase in their Scope 1 emissions. Logista's 2021 relative Scope 1 and 2 emissions comprise 43 tonnes (2020: 38) of $CO_2e$ per £million of 2021 distribution fees (our non-GAAP revenue measure for Logista). Further information on the scope of Logista's GHG reporting is available at www.grupologista.com. |
| **Logista absolute Scope 3 $CO_2e$ emissions** | Tonnes | 193,611 | 205,240 | 194,634 | **–** | |
| **Absolute water consumption[1]** | $m^3$ | 1,468,626 | 1,198,523 | 1,109,178 | **1,056,982[A]** | Having already achieved the original target of 15% reduction in water consumption by 2030, we have set a new target of 30% by 2030 versus a 2017 baseline. In FY22, we saw a 28% reduction in water consumption compared to the 2017 baseline year. |
| **Relative water consumption** | $m^3$/£m net revenue | 189 | 150 | 146 | **136[A]** | |

A. Select 2022 data has been independently assured by Ernst & Young LLP (EY) under the limited assurance requirements of the ISAE 3000 standard. EY Assurance Opinion is available on our website. Our reporting scope and definitions are detailed in the Reporting Criteria document published on our website.

1. Our 2022 environmental data covers the reporting period Q4 2021 to Q3 2022. This is to allow for data collection, validation and external assurance. We use the industry leading GHG Protocol standard to inform our reporting of Scope 1 and 2 emissions. In FY22 we reset our baseline and subsequent years' data for Scope 1 and 2 GHG emissions to make it consistent with the latest guidance from the Greenhouse Gas Protocol and CDP, particularly relating to Scope 2 market-based emissions reporting.

We are proud to have been been recognised for a second consecutive year as a Climate Leader by the *Financial Times* in its ranking of actions taken by European businesses.

Our actions to cut emissions and mitigate climate risks have earned us a position on the CDP's "A List" for climate change for a third consecutive year. Our 2021 CDP scorecard is available on our website.

HEALTHIER FUTURES

# PACKAGING AND WASTE

We are committed to minimising waste associated with our products, packaging and production processes.

## Consumer research

Our consumer research provides insights into what consumers value most. While they do not want to see compromise on the quality of the product, they do:

- Value waste reduction. They would like more information on how to recycle products, and they would like to see brands reduce the amount of packaging used and remove unnecessary plastic.
- Seek clarity on how we source materials which go into our products as well as the proportions sourced from recycled materials.
- Value human rights and expect us to commit to ethical work practices. Please see page 50 for our approach to human rights.

## Our plan

(from a 2017 base year)

### 2025

- Our operations will send zero waste to landfill
- 100% of our packaging will be reusable, recyclable or compostable in the EU and UK

### 2030

- We aim to reduce waste generated within our operations by 20%

## Behaviours

Start with the Consumer

## Link to SDGs

We aim to ensure sustainable consumption and production patterns.

Given our global reach we want to play a role in protecting the natural environment and we actively work to minimise our environmental impacts. We also recognise that certain resources are finite and, as such, this presents us opportunities to explore solutions that support our business sustainably and protect the environment. We are committed to compliance with environmental legislation. Reducing our environmental impact also supports efficiency and cost optimisation.

As part of our role in protecting the natural environment, we seek to minimise overall waste, eliminate waste to landfill and make all our packaging in the EU and UK reusable, recyclable or compostable.

In April 2022, we launched our zero waste to landfill project across our manufacturing sites, and since last

year, we have seen a 20% decrease in waste to landfill. We have established a global knowledge hub on waste management to share best practice across sites and to encourage collaboration.

We have conducted recycling assessments on our packaging for products sold in the EU. These assessments have been conducted by a third party and have allowed us to identify non-recyclable packaging on which to focus our improvement efforts. To date, 86% of packaging formats that we have assessed in the EU are recyclable.

We acknowledge that as our NGP business grows, we are faced with additional waste and recyclability issues. We continue to look at how we can improve the sustainability of NGP materials and packaging.

We will continue to implement a consumer-led, regulatory compliant packaging strategy in FY23 and we are aiming to provide further details during this year.

We have reviewed and updated our waste and packaging-related targets, and these are detailed in "Our plan".

As we target zero waste to landfill, we amended our definitions for waste to account for local regulations which require hazardous waste to be landfilled. For this reason we have restated our waste to landfill baseline and subsequent years' data. Our waste performance is shown in the table below.

## WASTE PERFORMANCE

| Performance indicator | Unit | 2017 (base year) | 2020 | 2021 | **2022** | Commentary |
|---|---|---|---|---|---|---|
| **Absolute waste[1]** | Tonnes | 49,141 | 40,253 | 41,714 | **41,969[A]** | Our target is to reduce waste by 20% by 2030. We have seen a 15% decrease in waste from our 2017 baseline year. We have seen a slight increase of 0.6% in waste compared to last year which is mainly due to increased production volumes at our McAdoo site. |
| **Relative waste[1]** | Tonnes/£m net revenue | 6.34 | 5.03 | 5.48 | **5.39[A]** | |
| **All waste sent to landfill[1]** | Tonnes | 7,200 | 6,646 | 10,619 | **8,544[A]** | Our target is to achieve zero non-hazardous waste sent to landfill by 2025. This year we have redefined waste to landfill to include waste incinerated without energy recovery and have therefore restated our data. Compared to last year, we have seen a 20% decrease in waste sent to landfill. |
| **Relative waste to landfill[1]** | Tonnes/£m net revenue | 0.93 | 0.83 | 1.40 | **1.10[A]** | |
| **Landfill avoidance rate[1]** | % | 88 | 88 | 83 | **85[A]** | A key element of our environmental approach is to minimise the waste sent to landfill. Some factories have reduced the amount of waste they send to landfill by reusing waste, recycling, composting and incineration (with energy recovery). |

A. Select 2022 data has been independently assured by Ernst & Young LLP (EY) under the limited assurance requirements of the ISAE 3000 standard. EY Assurance Opinion is available on our website.
Our reporting scope and definitions are detailed in the Reporting Criteria document published on our website.

1. Our 2022 environmental data covers the reporting period Q4 2021 to Q3 2022. This is to allow for data collection, validation and external assurance.
To note: Absolute waste does not include reused waste.

POSITIVE CONTRIBUTION TO SOCIETY

# FARMER LIVELIHOODS AND WELFARE

We are committed to engaging with our suppliers to support and develop farming communities and promote sustainable agriculture.

## Aims

**Purchasing from leaf suppliers who are committed to supporting their farmers to access a decent standard of living.**

We aim to purchase from and engage leaf suppliers who support their farmers to achieve a decent standard of living by:

- Continuing to enhance due diligence in our leaf supply chain, co-ordinated through our leaf Compliance and Reporting e-tool (CARE) programme.
- Continuing to set high expectations for suppliers who contract with farmers.
- Increasing our support for projects that have a direct impact within the tobacco communities in our supply chain.

## Our plan

### 2025

- Support suppliers to provide access to 100% sustainable wood use

### 2030

- Support suppliers to improve access to basic needs for 180,000 farmers and their families

## Behaviours

## Link to SDGs

We aspire to have a positive impact on the planet, and the farming communities in which our suppliers operate. We do this by continuing to support our suppliers to help their contracted farmers increase access to basic needs, diversify their income and farm sustainably. This supports our efforts to build a more responsible supply chain that is sustainable for the future.

We are working to enhance standards in our leaf supply chain both directly with our suppliers and through partnerships, such as those created through the Sustainable Tobacco Programme (STP). The STP aims to have a positive impact in tobacco-growing communities, and all tobacco leaf suppliers are expected to participate. This is an independently managed framework that provides us with visibility over our supply chain in two ways: first, by empowering our suppliers to report on the actions they are taking to address any risks identified, and how they are having a positive impact on the ground; and second, by verifying these actions both remotely and in the field. This informs our strategy to support our suppliers in taking effective action.

In 2022 (based on the tobacco leaf crop year 2021), 96% of our suppliers reported on their due diligence to the STP.

Our suppliers provide training on sustainable practices, human rights, and modern slavery to their farmers, especially prior to peak growing periods. In addition, they use posters, handbooks, storytelling and kits to help convey key messages in their tobacco-growing communities.

Within the last year we participated in four independent Supply Chain Impact Assessments (SCIA). These assessments help focus our suppliers to prioritise topics and develop or enhance action plans to have a meaningful impact on the ground. Where collaboration is beneficial to achieving impact, we jointly commission these assessments with other manufacturers or suppliers. A recent example of industry collaboration is the Türkiye 2021 SCIA. A total of 560 stakeholders' perspectives on social conditions in the Turkish Tobacco Leaf supply chain were secured during field research in tobacco growing communities during the harvest period. The third party also worked with each of the six participating suppliers in establishing individual action plans that address the findings, and an outcome was the

establishment of an industry-wide body to collectively address areas of common focus. We have closely followed the development of these action plans and working groups over the last year, and will continue to stay informed through dialogue with our suppliers on their progress.

Through Leaf Partnerships we work directly with suppliers to fund specific projects that complement the work they are already doing and thereby amplify their impact in tobacco-growing communities. These projects range from enhancing farmers' businesses to supporting communities increase access to basic needs, such as education and clean drinking water. In FY22, Imperial provided financial support to projects in 11 countries. These projects are benefiting at least 84,000 farmers and their families.

We are committed to purchasing tobacco from socially and environmentally responsible suppliers

## FORESTRY

Many of our suppliers' contracted farmers use wood in tobacco production, either as a fuel in the curing of tobacco or for constructing barns required for the curing of tobacco.

In support of our ESG strategy, Imperial has committed to supporting suppliers and their farmers to access sustainable wood by 2025. There are various tobacco leaf curing methods, including air-curing, sun-curing, and flue-curing. The type of curing method is dependent on the tobacco variety. Flue-cured tobacco requires wood for curing, since the tobacco leaf is dried, in curing barns, by means of heated air. As such, to be wood sustainable, the wood used for curing should not contribute towards deforestation or should utilise renewable energy curing methods.

In 2023, Imperial will continue to create partnerships in those remaining countries that are working towards wood sustainability and will directly fund commercial forestry programmes. This builds on the forestry programme Imperial directly funded with suppliers in Africa between 2015 and 2019.

Through our Leaf Partnership programme since 2012, we have funded the construction of over 5,000 energy-efficient tobacco-curing barns. These barns can use up to 20% less wood fuel compared to standard curing barns.

5,000 energy-efficient curing barns constructed with suppliers between 2012 and 2018

Through the tobacco leaf we purchase, Imperial also financially supports national forestry programmes, such as the Tobacco Afforestation Programme in Tanzania. Planting trees decreases the pressures on the indigenous woodland that is being harvested for use in tobacco production. There are also economic benefits for farmers in labour saving, reduced cost of wood and transport. In Madagascar, since 2017 we have planted 1300 hectares of commercial forestry, delivering 80% wood sustainability to date (2022), with 100% wood sustainability expected to be achieved by 2025. Please see our Madagascar video on our website for more details.

1,300 hectares of commercial forestry planted in our own operations in Madagascar

Chief Executive Stefan Bomhard during a visit to a tobacco farm in 2022

### ADDRESSING CHILD LABOUR

1. **The Sustainable Tobacco Programme** (STP)
   The Human and Labour Rights section of the STP is informed by the relevant International Labour Organization (ILO) core conventions and the principles and guidance contained within the UN Guiding Principles on Business and Human Rights.
2. **Our Leaf Partnership Projects**
   We are working directly with our suppliers to fund projects to help tackle some of the root causes of child labour.
   **Eliminating Child Labour in Tobacco Growing (ECLT) Foundation**
3. We actively support the ECLT and its aims to tackle the root causes of child labour.

## FARMER LIVELIHOODS AND WELFARE PERFORMANCE

| Performance indicator | 2021 | 2022 | Commentary |
|---|---|---|---|
| **Percentage of suppliers' directly contracted farmers growing complementary crops**[1] | 88 | **94** | Complementary crops are grown alongside or in rotation with tobacco. These crops are grown for household consumption, sale, or as rotational crops to enrich and conserve the soil. These efforts have resulted in an increase of 7% in this metric over the last reporting year. |
| **Percentage of suppliers' directly contracted farmers with access to initiatives to improve agricultural productivity**[1] | 97 | **98** | Suppliers aim to provide all their directly contracted farmers with access to initiatives to improve agricultural productivity, including technical support, improved efficiencies, and improved infrastructure. These efforts have resulted in an increase of 1% for suppliers' directly contracted farmers with access to initiatives to improve agricultural activity over the last reporting year. |
| **Tobacco farming community members benefiting from new Imperial Leaf Partnership projects** | 130,000 | **84,000** | Imperial continues to fund projects aimed at addressing key livelihood and welfare issues in tobacco communities. This number represents the number of new beneficiaries from 2022 projects. Imperial currently supports 230,000 farmers and their families through ongoing projects. |

1. Data is from strategic suppliers in prioritised countries in most need of support, as outlined by a sustainability index compiled using Maplecroft risk indexes.

## BIODIVERSITY

The responsible husbandry and restoration of natural habitats, soils, and water are integral to sustainable agriculture. Our suppliers are encouraged to protect and enhance biodiversity in their growing areas. This includes topic areas covered by STP, such as: the mapping of sensitive areas, responsible soil management and integrated pest management (IPM) to reduce the use of pesticides and increase micro-flora. We also support and engage with suppliers in the planting of indigenous trees to encourage and grow local biodiversity by supporting insect and bird life.

We intend to publish a full biodiversity policy in FY23.

## WATER

In FY22 Imperial committed to supporting suppliers to improve access to basic needs for 180,000 farmers and their families by 2030. This includes access to clean water, sanitation, and hygiene (WASH).

**Up to 136,000 farmers and their families benefiting from water, sanitation, and hygiene projects we have funded**

Encouraging a water stewardship approach to managing water in our suppliers' catchment areas and directly supporting their projects through our Leaf Partnership are key areas of importance for Imperial.

Between 2021 and 2022 our investment in water, sanitation, and hygiene projects in countries of most need, including Mozambique, India, the Dominican Republic, Guatemala, Brazil, and Honduras equates to around US$ 1.8m.

## CHILD LABOUR

Like other agricultural industries, the risk of child labour is highest in the cultivation part of our supply chain. In addition to working directly with our suppliers, we recognise that child labour is a multi-stakeholder issue, which no single entity can address in isolation. In collaboration with key stakeholders including the industry, suppliers and others operating in these communities, we seek to address child labour through three main avenues detailed in the green box on page 47.

POSITIVE CONTRIBUTION TO SOCIETY

# SUSTAINABLE AND RESPONSIBLE SOURCING

We are committed to sourcing products and services in a compliant, sustainable and socially conscious manner. We will work with our suppliers to ensure continuous improvements.

### Procurement strategy

Our updated procurement strategy covers all third-party spend among all five of our supply chain categories:

1. Tobacco leaf
2. Non-tobacco materials (NTM)
3. Next generation products (NGP)
4. Indirect goods and services
5. Logistics

While suppliers may be managed globally, regionally, or locally, the ambition is that all suppliers meet the same standard to enable Imperial to meet its commitments to stakeholders, employers, and communities.

### Our plan

To source products and services from a diverse supply base that matches our ESG values and ambitions.

### Delivered in 2022

- Refreshed our Supplier Code of Conduct
- Further developed our risk assessment framework

### 2023

- Launch refreshed Supplier Code of Conduct
- Update risk assessment of our supply base according to our refreshed Supplier Code of Conduct

### 2024

- 50% of our suppliers, by spend will have science-based targets by 2024.

### Behaviours

### Link to SDGs

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We aim to ensure sustainable consumption and production patterns.

Ensuring continuity in our supply chain has a direct impact on our business today, as well as the potential to impact business sustainability in the future. It is important that the standards we expect in terms of quality, labour practices, human rights and environmental concern are adhered to by our suppliers.

We establish a relationship of trust and integrity with our suppliers. We expect them to conduct their business in an ethical and responsible manner and comply with all applicable laws and regulations.

We only select and do business with suppliers who can demonstrate that they operate in a manner consistent with our standards and Supplier Code of Conduct.

Sustainability strategies are integrated into the management of our supply chains, via supplier management programmes and standards.

### Supply Chain Due Diligence

Tobacco leaf supply due diligence is covered in the Farmer Livelihoods and Welfare section on page 46.

Our existing Supplier Qualification Programme is the first screening process for all new non-tobacco material (NTM) and NGP suppliers. Once on board, our Supplier Quality Assurance Audit team undertake a phased cycle of onsite supplier validation audits using a risk-based approach, following a detailed Supplier Audit Risk and Control Matrix which includes the supplier providing evidence for their management of ESG issues which are listed in the green box below.

In FY22 we engaged with relevant internal stakeholders from across the business to review and update our Supplier Code of Conduct, and agreed to include more detail on environmental and human rights aspects. The updated Supplier Code of Conduct will be rolled out in FY23.

We have also developed our risk assessment framework to include the five major categories within our supply chain and this will also be rolled out to the business in FY23.

We have been recognised as a Supplier Engagement Leader by CDP for a third successive year. All companies making climate change disclosures to CDP receive a Supplier Engagement Rating (SER), in addition to their climate change score, rating them on how effectively they engage their suppliers on climate issues.

### THE SUPPLIER QUALIFICATION PROGRAMME

Self-assessment questionnaire completed by suppliers and includes questions on

- Business conduct
- Environmental management
- Labour practices including discrimination
- Child and forced labour
- Freedom of association
- Wages and working hours
- Health and safety

### 2022 PERFORMANCE HIGHLIGHTS

In 2022, 34% of our suppliers by spend had set science-based targets. This supports our Scope 3 reduction activities.

We have refreshed our Supplier Code of Conduct, dividing topics into three sections for clarity: Business Integrity, Human Rights, and Environment. This will be launched externally in 2023.

HEALTHIER FUTURES

# HUMAN RIGHTS

We are committed to raising awareness and improving processes in our supply chains, and we recognise the importance, influence, and role we have in promoting and protecting human rights.

**We take allegations relating to human rights extremely seriously and are committed to investigating any potential human rights issues within our supply chain and direct operations.**

**We have identified the following key human rights issues that are particularly relevant to our direct operations:**

- The potential for modern slavery – which includes forced labour, slavery, servitude, and human trafficking.
- Ongoing commitment towards fair wages and decent work, gender equity, non-discrimination and non-harassment, freedom of association, and collective bargaining.

Human rights topics within our value chain are covered in the Farmer Livelihoods & Welfare and Sustainable & Responsible Sourcing sections.

## Our plan

Strengthen our due diligence process in alignment with international frameworks, including the United Nations Guiding Principles on Business and Human Rights, and legislation to ensure we are equipped to identify, prevent, and mitigate potential human rights risks. We have a duty of care to protect and support our employees.

We aim to avoid disruptions, create a thriving workplace, and consolidate best practices.

## Continue to strengthen

- Employee access to Speaking Up channels and a remediation process.
- Monitoring of human rights leading indicators in our operations and report on the number of audits completed.
- The audit process of our facilities management supplier across its Europe sites, using our anti-modern slavery internal audit module.
- Modern slavery training needs to ensure effective understanding globally.

## 2023

- Assess priority locations for salient human rights issues, to inform and test the robustness of our due diligence processes.

## Behaviours

## Link to SDGs

We are committed to decent work for all and to sustainable economic growth.

Human rights abuses are unacceptable. We have established due diligence programmes to respond to and mitigate the risk of human rights abuses in our direct operations and supply chain through appropriate processes and procedures. As part of this, our internal escalation channels, including the Human Rights Compliance Working Group and Leaf Compliance Working Group, ensure potential and actual risks are reported and responded to appropriately within the business.

Human Rights within our value chain are covered in the Farmer Livelihoods & Welfare (page 46) and Sustainable & Responsible Sourcing (page 49) topics.

Where non-conformance is identified in our direct operations, we prioritise, respond, measure and report on actions taken to implement corrective and preventative actions.

We have created a Modern Slavery Working Group to step up our alignment and response to potential human rights violations as and when required.

Raising awareness and broadening our knowledge about human rights are crucial factors in delivering our strategic objectives. Throughout the year we run several communication campaigns focused on human rights, modern slavery, and the use of our independently operated Speaking Up tool. Through our Slave-Free Alliance membership, we commemorated UK Anti-Slavery Week, which was an opportunity to raise the profile of our work to minimise our exposure to modern slavery and human trafficking.

In 2022 we created an ESG digital learning programme and its Human Rights module pays special attention to modern slavery, its most prominent indicators and how to report perceived or real concerns. This digital learning programme is mandatory and will be available both online and offline to our employees across the business with roll-out planned for FY23. Having a training programme that covers the needs and specificity of a wide range of our working locations will help to apply our knowledge most effectively.

Our Human Rights Policy has been updated to align with our refreshed ESG Strategy. We included feedback from several external agencies, as well as our internal stakeholders. The result is a Policy in line with our current progress and understanding, which lays the foundation for future improvements. We aim to review the Policy annually to ensure it captures new developments and renews its ambitions regarding respecting and promoting human rights.

Our Human Rights Policy is informed by the International Bill of Human Rights, the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work and the ILO's core conventions, as well as the principles contained within the United Nations Guiding Principles (UNGP) on Business and Human Rights, OECD Guidelines for Responsible Business and the UN Sustainable Development Goals.

In 2022, we also carried out an internal analysis to update our list of salient human rights issues. They are: child labour, modern slavery, occupational health, safety and wellbeing, fair wages and decent work, gender equity, non-discrimination and non-harassment, and freedom of association and collective bargaining. Having a clearer picture of the type of risks our business and operations might be exposed to will help us take the most informed course of action to prevent and mitigate negative impacts. By focusing our efforts on these new salient human rights issues, Imperial Brands additionally contributes to UN SDGs 1, 3, 4, 5, 8, 10, and 16, which aligns with our new ESG Strategy and Human Rights Policy.

We are proud to be a founding member of the Slave-Free Alliance (SFA) and we continue to support the international charity Hope for Justice, in their pursuit of a slave-free world.

## 2022 PERFORMANCE HIGHLIGHTS

- Strengthened our due diligence framework and embedded human rights awareness across the business through designing an anti-modern slavery internal audit module, reinforcing human rights -focused internal structures, and creating a dedicated new mandatory ESG digital learning programme which includes a focus on human rights and modern slavery.
- Improved governance through the appointment of a new Human Rights Manager and reinstated a refreshed cross-functional Human Rights Compliance Working Group to drive and steer actions related to the human rights ambitions of our ESG strategy.
- Updated our Human Rights Policy to ensure better alignment to evolving international best practice guidelines and principles.
- Continued to monitor human rights leading indicators in our operations and updated modern slavery internal audits of our manufacturing sites.
- Conducted an anti-modern slavery audit with our Europe facilities management provider in Germany, and an internal review of our manufacturing sites in Poland and the Philippines.
- Updated our list of salient human rights issues for our priority locations.

SAFE & INCLUSIVE WORKPLACE

# EMPLOYEE HEALTH, SAFETY & WELLBEING

We are committed to achieving world-class occupational health, safety & wellbeing for all our employees.

## Commitment

The health, safety & wellbeing of our employees continues to be of the utmost importance to us. We want to continue to create a working environment where wellbeing and safety are absolute priorities.

## Our plan

(from a 2019 base year)

### 2023

- Obtain employee feedback on wellbeing and safety via our global employee experience survey.
- Design and launch a global wellbeing strategy based on employee feedback.
- Establish wellbeing KPIs.
- Launch zero injury aspiration programme.

### 2025

- 75% of fleet vehicles fitted with an in-vehicle monitoring system (IVMS).
- 60% reduction in fleet collision rate.
- 100% compliance with the OHSE Framework.

### 2030

- 75% reduction in lost time accident rate (LTA).

## Behaviours

## Link to SDGs

We aim to promote healthy lives and wellbeing for all.

We want to continue to create a working environment where the wellbeing and safety of our employees are absolute priorities. As part of this commitment, we have health, safety & wellbeing as one of the core focus areas of our refreshed ESG strategy. This includes setting new, long-term targets as well as launching a "zero injury" aspiration. But we can only achieve this if all colleagues take personal responsibility. Therefore, our health, safety and wellbeing key message to colleagues is: "I Own Safety".

To help achieve our vision we have adopted an Occupational Health, Safety and Environmental (OHSE) framework based on a "Plan Do Check Act" model. This is applied throughout the business, with a focus on the consistent integration of our health and safety standards as well as adopting robust governance and reporting processes.

To support continuous improvement we have developed a range of leading indicators to help us measure compliance and identify improvement opportunities. We use these leading indicators to manage our key health and safety risks – such as working at height, operating machinery, and driving – and to measure compliance against our framework. This approach ensures we focus resources in the right areas and can effectively manage risk across all our factories, warehouses, offices, and sales forces.

We have global procedures to help maintain consistent standards across the entire business, covering areas such as hazard identification, risk assessment, road risk and incident investigation. These are applicable to all locations and are audited as part of our internal and external audit programmes.

## Wellbeing

The wellbeing of our employees is of paramount importance to us and has been confirmed as an ESG priority, following the refresh of our ESG strategy and the outcome of a materiality assessment. The COVID-19 pandemic has had a significant impact on this topic, further increasing the need to do more. We are working to improve our management of and approach to this issue.

The personal support we give employees is focused on three key areas: mental, physical, and social wellbeing.

Currently, our employee wellbeing support is managed locally and includes resilience training, employee assistance programmes, health checks and awareness programmes, flexible working, family-friendly policies and facilities, and workplace celebrations and social events.

We also provide occupational healthcare services to support the needs of our employees. Some of our larger sites have in-house occupational health professionals, whereas other sites use third-party healthcare service providers. In addition a number of sites also have wellness rooms for employees to use.

We advocate flexible working and have encouraged our people to find a routine that works best for them and their families. We communicate regularly with employees and have initiated several surveys to check-in on their wellbeing.

We also encourage volunteering as a positive way for our people to engage with local communities, broaden their perspectives and support work-life balance.

We aim to demonstrate our commitment to the mental health and wellbeing of employees, contractors and visitors in its broadest, holistic sense, with our new Wellbeing Plan detailed in the purple box.

In October 2021 we celebrated World Mental Health Day with a new campaign called "The Importance of Belonging". The campaign's purpose was to encourage awareness of mental health and create opportunities for us to promote positive mental health and wellbeing. We provided resources for employees to access on our internal Safe & Well hub.

In May 2022 we also supported Mental Health Awareness Week in the UK. The official theme was "loneliness" and, across the week, we encouraged people to build meaningful connections with their friends, family, colleagues, and communities. As part of this, we launched two optional training courses on Workday, our HR platform: Stress Awareness and Managing Anxiety.

In the UK we also involved our Mental Health Champions in another initiative during this campaign, where we offered three 'wellbeing tickets" (vouchers for free coffees) to encourage them to promote themselves as wellbeing ambassadors and hold meaningful conversations with three of their colleagues. In addition, we launched two new sessions: face to face "Tea & Talk" sessions and online "Spotlight on Wellbeing" guest speaker sessions, during this campaign.

We have reviewed and updated our targets related to health and safety and these are detailed in "Our Plan". Performance against these targets is provided in the Health and Safety Performance table.

**Our Wellbeing Plan:**

- Launch our refreshed wellbeing strategy during our 2023 financial year.
- Include wellbeing responsibilities into our policies.
- Assemble a Wellbeing Working Group responsible for over-seeing and maintaining effective governance of wellbeing activities within Imperial's operations.
- Benchmark the range of support available in our priority locations for the maintenance of mental health.
- Develop a Wellbeing Framework with key leading indicators.
- Measure our performance moving forward.
- Foster a mentally healthy culture by incorporating these principles into People Leader training.
- Run regular initiatives to raise awareness of mental health issues at work.

## HEALTH AND SAFETY PERFORMANCE

| Performance indicator | | 2019 (base year) | 2020 | 2021 | **2022** | Commentary |
|---|---|---|---|---|---|---|
| **Employee fatalities[1]** | Number | 2 | 3 | 1 | **0** | Health and safety remains a priority for all our employees. |
| **Contractor fatalities[1]** | Number | 0 | 0 | 0 | **0** | Health and safety remains a priority for all our stakeholders. |
| **Members of the public fatalities involving Imperial Brands vehicles[1]** | Number | 1 | 0 | 0 | **0** | Road safety remains a priority across all our operations. |
| **Lost time accidents (LTAs)[1,2]** | Number | 101 | 80 | 65 | **57** | There has been a 12% decrease in the number of lost time accidents compared to last year. |
| **LTA rate[1,2]** | LTAs per 200,000 hours worked | 0.40 | 0.32 | 0.27 | **0.24[A]** | We have seen an 11% decrease in our lost time accident rate compared to last year. During FY22 we continued to increase the use of leading indicators to better manage risk throughout our operations. |
| **Total number of accidents[1,2]** | Number | 850 | 720 | 573 | **522** | We have seen a 9% decrease in total accidents compared to last year. |
| **Accident rate[1,2]** | Total accidents per 200,000 hours worked | 3.39 | 2.19 | 2.36 | **2.24** | We have seen a 5% decrease in our accident rate compared to last year. We are pleased to see a continued reduction in our total number of accidents and our LTA rate. |
| **Fleet collision rate** | Accidents per million kilometres | 5.03 | 4.19 | 3.95 | **2.8** | There has been a 29% decrease in our vehicle accident rate compared to last year. Road safety remains a key priority for us. We adopt global standards for road safety and use our Drive Safe campaign to promote awareness and influence behaviour. |
| **Fleet vehicles fitted with an IVM system** | % | – | – | – | **57.3** | Evidence shows that in vehicle monitoring systems (IVM) typically lead to fuel reduction and improved safety performance – we will continue to test and extend coverage. |
| **Compliance with the OHSE Framework (Manufacturing)** | % | – | – | – | **87** | We aim to be at 100% compliance with our framework standards by 2025. |
| **Compliance with the OHSE Framework (Sales)** | % | – | – | – | **93** | We aim to be at 100% compliance with our framework standards by 2025. |
| **OHSAS 18001/ISO 45001 certification** | % | 79 | 79 | 74 | **71** | Re-certification of some sites (particularly in Africa) continues to be a challenge since the Covid-19 pandemic. |

A. Select 2022 data has been independently assured by Ernst & Young LLP (EY) under the limited assurance requirements of the ISAE 3000 standard. EY Assurance Opinion is available on our website. Our reporting scope and definitions are detailed in the Reporting Criteria document published on our website.
1. Our health and safety data is for the full 2022 financial year.
2. Accidents reported do not include commuting to or from work, or those sustained by third parties such as distributors.

# DIVERSITY, EQUITY & INCLUSION

We are committed to creating a truly diverse and inclusive organisation renowned for celebrating difference, enabling our people to feel that they belong and be their authentic selves.

We will respect, recognise and value the diversity of our consumers and reflect the communities in which we operate.

We have developed our approach to diversity, equity and inclusion in close collaboration with our employees. At the centre of our efforts have been four new Employee Resource Groups (ERGs). The 500 members of these groups have been instrumental in helping us to develop an end-to-end five-year strategy which will be launched in FY23.

## Global Employee Resource Groups

- Gender ERG
- Ethnicity ERG
- LGBTQ+ ERG
- Disability ERG

Our four ERGs have continued to grow their memberships and raise awareness across the organisation on key diversity topics.

The ERGs have also begun to partner with DEI Centre of Expertise (CoE) on priority programmes of work, including increasing diversity data disclosure throughout the business and creating a community of global allies to support our DEI ambitions.

## Behaviours

Be Authentic, Inclusive to all

## Link to SDGs

We aim to achieve gender equality and a more inclusive organisation.

Diversity, equity and inclusion (DEI) is critical for our business, for our culture change programme and for our ESG ambitions. We are developing a performance-driven and inclusive culture which supports the delivery of Imperial's strategy. Underpinning our cultural shift is a set of five clear behaviours, which demonstrate how we need to think and act to succeed. To "be authentic and inclusive to all" is one of our core behaviours and aligned to our commitment to DEI.

A key aspect of our cultural transformation is our focus on creating a more diverse and inclusive organisation. We strongly believe that diversity across our organisation not only makes it a better place to work but also helps us realise our commercial strategy.

We define diversity as everything that makes us unique; equity as giving fair treatment, access, opportunity, and advancement for everyone; and inclusion as involving and accepting every individual and valuing their difference.

Promoting a diverse and inclusive culture also results in the increased attractiveness of Imperial as an employer for both current and potential employees.

We are committed to treating employees with respect and we support equal opportunities, as outlined in our Fairness at Work Policy and Code of Conduct. We want a culture that is vibrant and where our employees can be themselves at work.

In FY22 we formed a new Global Diversity, Equity, and Inclusion Centre of Expertise (CoE). The CoE is developing our new global DEI ambition and strategy which will inform our activities across the business in pursuit of becoming a truly diverse and inclusive organisation.

## DIVERSITY, EQUITY AND INCLUSION PERFORMANCE[1]

| Performance indicator | | 2020 | 2021 | 2022 | Commentary |
|---|---|---|---|---|---|
| **Female employees in the workforce** | % | 43 | 40 | **40**[A] | Female employee numbers remain the same as last year, even though there has been a significant increase in the employee turnover rate. |
| **Female senior management**[2] | % | – | – | **29**[A] | We are committed to increasing representation of women in senior management (Global Grades 3, 4, 5) and clear KPIs will be set as part of our strategy. |
| **Female Executive Leadership Team (ELT) members** | % | 14 | 33 | **30**[A] | Female representation on the ELT as at 30 September 2022 (end of FY22) was 30%. |
| **Female PLC Board members** | % | 25 | 22 | **40**[A] | We made a commitment to increase female representation in senior management roles to 30% by 2023. We are pleased to report that on 30 September 2022 (end of FY22) female representation on the Board was 40% and includes the Chair of Imperial Brands. |
| **Ethnic background on our Board** | % | – | 10 | **20** | At 30 September 2022 (end of FY22), 20% of the Board members identified as being from an ethnic minority background. |
| **Employee turnover rate**[3] | % | 14 | 10 | **30** | There has been a significant increase in involuntary turnover for employees with permanent contracts due to workforce reduction and divestiture. |

A. Select 2022 data has been independently assured by Ernst & Young LLP (EY) under the limited assurance requirements of the ISAE 3000 standard. EY Assurance Opinion is available on our website.
Our reporting scope and definitions are detailed in the Reporting Criteria document published on our website.

1. We recognise the need to gain more comprehensive employee demographic data in order to understand the diversity of our employee base and drive inclusion. This will form a key part of our new DEI strategy and will help us measure (where appropriate) ethnic minority, disability, LGBTQ+ and other key DEI dimensions.
2. The proportion of senior management employees (Global Grade 5 and above) recorded as female across Imperial Brands Group excluding Logista.
3. This reflects all employees excluding those employed by ITG Brands and Logista

We promote diversity within the business through awareness campaigns, career talks, unconscious bias training and diversity celebrations. We have provided bespoke e-learning courses in 11 languages to help our people leaders understand the issues of unconscious bias and microaggressions. Throughout FY22 we continued to celebrate globally important cultural events, including International Day of Persons with Disabilities, International Women's Day, World Day for Cultural Diversity for Dialogue and Development, and Pride. Members of our Executive Leadership Team globally sponsor our ERGs and actively steer and support their work. Our new global DEI strategy is expected to be finalised in the first quarter of FY23 and this will set out our diversity and inclusion approach for the next five years. In FY23 we intend to focus on three areas: One, improving our employee data. We know we need a more solid baseline to measure future progress. Two, creating a community of allies, which is a bedrock for a sustainable approach to DEI. And three, reviewing how we attract, recruit and retain talent, and how we manage career advancement. We will continue to raise awareness of DEI through learning modules in inclusion and allyship and embedding DEI into everything we do. We are pleased with the progress we have made to date but we know we have more to do.

# POWERED BY RESPONSIBILITY

**ESG Governance structure**

## Leadership and governance

We are committed to operating responsibly in everything we do, respecting our people, our communities, and our planet. We discharge our ESG responsibilities through a framework of governance.

To ensure the Board has full oversight of all relevant ESG issues, we have established a cross-functional ESG Committee, chaired by the CEO of Imperial Brands. The Committee meets at least three times per year. Permanent members of the Committee include all of the Executive Leadership Team (ELT), making it an executive committee to oversee the management of our material ESG issues and ensure the successful delivery of our ESG strategy. Senior managers representing functions including Investor Relations, Group Legal, Governance, Corporate Affairs, Supply Chain and Procurement, Communications and ESG attend meetings as required.

We have a comprehensive governance structure, ensuring appropriate levels of focus, cross-collaboration, risk management and escalation pathways covering every ESG area of focus. The Board reviews our ESG performance on a quarterly basis. The ESG Committee reports to the Board for ESG-related opportunities, and to the Group Risk Committee for potential material ESG-related risks.

The cross-functional Environmental and Social Strategy groups report to the ESG Committee and are in turn fed into by a range of ESG topic-specific working groups. This strengthened governance approach enables cross-functional collaboration and avoids duplication of efforts.

Further information on our approach to risk and opportunity management is available on page 82.

We have a broad range of policies to support our approach to risk management and good governance. Our Code of Conduct, translated into 32 languages, is embedded throughout Imperial Brands and drives our responsible approach. It is aligned with the policies, internal controls and risk management processes that underpin our strategy. The Code of Conduct sets out the responsible behaviours we expect from employees in their dealings with colleagues, customers, consumers, suppliers, agents, intermediaries, advisers, governments, and competitors. All employees and business partners are expected to act with integrity and in accordance with the standards of behaviour set out in the Code. We expect our suppliers to conduct their business in an ethical and responsible manner and to comply with all applicable laws and regulations. Our Supplier Code of Conduct, based on our employee Code of Conduct, sets out the behaviours we expect our suppliers to demonstrate. The Supplier Code of Conduct is embedded into our Procurement Policy and processes, which govern how we select and contract with our suppliers. Our Supplier Code of Conduct is available in 19 languages.

## Governance education training for employees

Mandatory governance education modules on a variety of topics are rolled out to employees with online access, based on role and location. For employees who do not have access to our online systems, we work with local markets to provide translated PDF versions of courses that can be used locally to deliver face-to-face training. All employees who are assigned courses are required to complete these modules. One of our key e-learning courses is on our Code of Conduct. Part 1 of this course introduces our Code of Conduct, reviews our Company values, explains why we have a Code and emphasises how we all have a responsibility to follow the Code. Part 2 of the Code of Conduct course explains the responsibilities each of us has, regardless of our role, seniority or location, to act in ways that promote a culture of mutual trust and respect. We also have an e-learning course on

modern slavery, now available in 15 languages. This course provides a short overview of modern slavery and explains how employees can raise concerns.

### Speaking Up

Our Speaking Up platform is available both to our employees and to other stakeholders, including suppliers and farmers. The platform offers a wide range of reporting routes and supports anonymous reporting and feedback.

The Speaking Up policy is made available both internally and on the Group website.

Issues raised included allegations of mistreatment of employees, claims of unfair treatment or wrongful termination, allegations of unprofessional behaviour, pay concerns and protection of personal data. Claims of conflict of interest, breach of control environment, and bribery and corruption were also raised. These claims were investigated and found to be without merit. Our People and Culture teams were involved in dealing with a number of these issues, while others were managed by the Company Secretary, with investigation support and advice provided by members of our Finance, Group Security, Group Legal, HR and Internal Audit functions. At all times, the anonymity of the individual making the complaint was a key consideration.

## INVESTOR BENCHMARKS

Our ESG management and performance is evaluated by a wide range of external rating agencies.

We maintained our A rating from MSCI ESG Ratings in their last report updated in October 2022. In its June 2022 update, Sustainalytics gave us a medium risk rating score of 27.9 and concluded that "the company is at medium risk of experiencing material financial impacts from ESG factors, due to its medium exposure and strong management of material ESG issues. The company is noted for its strong corporate governance performance, which is reducing its overall risk." Vigeo Eiris (part of Moody's ESG solutions since 2019) gave us an overall ESG score of 42/100 and a Company Reporting Rate of 82% in their last update in October 2021.

In 2021, CDP awarded us an A rating for our Climate Change submission for a third consecutive year. We await the results of our 2022 submissions to CDP. We continue to participate in the CDP Supply Chain Programme, which gathers information from our key suppliers on how they are managing their climate risks and opportunities. We were pleased to be recognised as a Supplier Engagement Leader by CDP in 2021 for a third consecutive year. We have also participated in the investor-backed Workforce Disclosure Initiative (WDI) since 2019. This benchmark is currently based on disclosure, and performance scores have not been allocated.

We believe it is important for rating agencies to work together with companies, investors and other stakeholders to improve consistency and transparency in producing robust ESG data and ratings.

## INDEPENDENT ASSURANCE

We appointed Ernst & Young LLP to provide limited independent assurance over selected ESG content within the Annual Report for the period ended 30 September 2022. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

These procedures were designed to conclude on the accuracy and completeness of selected ESG indicators, which are indicated in the Report with an A.

An unqualified opinion was issued and is available on our website along with further details of the scope, respective responsibilities, work performed, limitations and conclusions.

# TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

**We continue to align and improve our climate-related disclosures because we recognise the benefit the guidelines bring to our stakeholders as well as our business itself. In accordance with its four primary components: governance, strategy, risk management, and metrics and targets, the TCFD mandates the sharing of both qualitative and quantitative information. It also seeks to enhance the transparency of climate-related risks and opportunities and give stakeholders the knowledge they need to conduct thorough and consistent analysis of the possible financial effects of climate change. For more information on our climate change strategy, please refer to page 41.**

## COMPLIANCE STATEMENT

In accordance with LSE Listing Rule 9.8.6(8) R we present our 2022 TCFD compliance index. We confirm that in this report we have made climate-related financial disclosures for the financial year ended 30 September 2022 (FY22).

In the table below, we include cross-references to disclosures made elsewhere within the Annual Report and explain the reasons for only partially complying with certain of the TCFD recommendations and recommended disclosures. We are set to expand on the partially compliant disclosures in FY23.

In assessing compliance with LSE Listing Rules 9.8.6(8) R, we took into consideration the documents referred to in the guidance notes to the Listing Rules, as well as considering on a voluntary basis the updated guidance on Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures published in October 2021.

| TCFD elements | TCFD recommended disclosures | Cross-reference or explanation for non-compliance | Compliance Statement | Next steps and other comments |
|---|---|---|---|---|
| Governance | a. Board oversight | Page | Compliant | Will be evolved to reflect status as it develops. |
| | b. Management's role | Page | Compliant | Will be evolved to reflect status as it develops. |
| Strategy | a. Climate-related risks and opportunities | Page | Compliant | Will be evolved to include comment on specific risk areas, particularly in regard to mitigations in place. |
| | b. Impact on the organisation's strategy | Page | Compliant | Will continue to evolve in line with our strategy, including mitigation and transition plans. |
| | c. Resilience of the organisation's strategy | Page | Partially compliant | Existing mitigation analysis and further localised action plans will be put in place in 2023. Financial materiality assessment will also be considered.<br>Will continue to evolve in line with our strategy, including mitigation and transition plans. |
| Risk management | a. Risk identification and assessment process | Page | Partially compliant | Existing mitigation analysis and further localised action plans will by put in place in 2023. Financial materiality assessment will also be considered.<br>Will be evolved to include comment on specific risk areas, particularly in regard to mitigations in place. |
| | b. Risk management process | Page | Compliant | Our risk management for climate is integrated into our company wide risk management, and will evolve accordingly. |
| | c. Integration into overall risk management | Page | Compliant | Will continue to evolve in line with our risk management. |
| Metrics and targets | a. Climate-related metrics in line with strategy and risk management process | Page | Partially compliant | We are developing our understanding of how to link our analysis to specific actions within our strategy.<br>Will continue to develop, in line with our strategy. |
| | b. Scope 1, 2, (and 3) GHG metrics and the related risk | Page | Compliant | We report in accordance to the GHG protocol, and have integrated our principle risks into this reporting. |
| | c. Climate-related targets and performance against targets | Page | Partially compliant | We are developing our understanding of how to link our analysis to specific actions within our strategy.<br>Will continue to develop, in line with our strategy and performance against it |

## GOVERNANCE

We have integrated ESG oversight and management, including climate change, at all levels of the business.

### The Board's role

The Board of Directors has regard to climate-related matters through our ESG strategy and performance, which includes management of climate risk. The Board has endorsed all climate-related targets. To ensure the Board has appropriate regard to climate-related issues, the Board endorsed the formation of a cross-functional ESG Committee which is chaired by the CEO.

The ESG Committee reports to the Board. In FY22 the Board of Directors were updated on climate-change related matters quarterly, following the ESG Committee meetings in November 2021, February 2022, May 2022 and September 2022. In November 2021, the Board endorsed new climate change metrics and targets, which included the activities ongoing for this TCFD disclosure, and in all other meetings the Board has been updated on performance against our climate change targets. The Board is also informed on the detail of our climate transition plan, which includes financial risk and opportunity.

It is through reporting from the ESG Committee, as well as Board-level consideration and approval of (i) enterprise risk appetite, assessment, and management; (ii) longer-term strategy; and (iii) the annual budget plan that the Board has regard to business plans, including expenditure for climate-related matters.

Tony Dunnage, Global ESG Director, conducted an additional ESG training to the Board in May 2022 to ensure the Board has appropriate regard to material environmental topics.

We also have two Non-Executive Directors (NEDS) with specific experience in climate-related matters. Diane de Saint Victor, appointed to the Board in November 2021, has been associated with a variety of companies playing a major role in addressing climate change. This includes serving as an executive committee member at one of the world leaders in technology solutions that help industries in reducing their energy consumption.

Alan Johnson, another of our NEDs, appointed in January 2021 is also the president and chair of the Board at the International Federation of Accountants. This organisation campaigned successfully to establish the International Sustainability Standards Board (ISSB), which was established at COP26 in November 2021. The Federation is now supporting the new ISSB and working with regulators across the world on the assurance of climate-related disclosures.

### Management's role

We have integrated climate governance across our functions, which enables us to bring together experts and decision-makers across the organisation.

Climate change is a central topic of the ESG strategy and is fully covered by the ESG Committee. The Committee is informed about the performance and progress of the strategy on a quarterly basis by the ESG team, and other internal subject matter experts.

The ESG team is led by the Global ESG Director, who reports to the Chief People and Culture Officer, and is the secretariat of the ESG Committee. The Senior Planning Manager in Group Finance is responsible for the long-term financial planning and alignment of climate-related risks and opportunities.

Risk factors are overseen by the Group Risk Committee. The Group's formal approach to risk management includes an update to the Board on a half-yearly basis on the enterprise-wide risk management framework (EWRMF), which contains all the Group risks and their associated control measures. This fully incorporates climate-related risks and opportunities and links them to our principal risks. The Group Risk Committee meets at least three times per year and works closely with the ESG Committee. Please see page 57 for the governance structure.

Both the ESG Committee and Group Risk Committee are informed by a matrix of supporting functions including the Group ESG function. The Environmental and Social Strategy Groups consist of experts from across the business, providing coverage of our eight material ESG topics including climate change. The groups meet on a regular basis and directly influence the Company's detailed ESG strategy. Climate-related issues in the business are assessed and managed through the Environmental Strategy Group. These Groups are chaired by the Global ESG Director and provide oversight of ESG risks and opportunities across the business.

## STRATEGY

In an ESG materiality assessment conducted in November 2021, climate-related issues were ranked as second most important ESG topic for our Company, after consumer health. This mandate, combined with the requirements of the listing rule formed our strategy to approach this TCFD disclosure.

### Our Approach

In 2022 we conducted a quantified climate scenario analysis with a 4°C and 1.5°C pathways (RCP 2.6 and RCP 8.5), aligned with the recommendations of TCFD and the Paris Agreement utilising a third party supplier for modelling, and with a cross functional group including members from Group ESG, Group Finance and Group Governance.

The scenario analysis takes into consideration climate-related physical and transition risks as well as opportunities in the short, medium and long term – the period from 2022-2050. Imperial Brands financial planning period covers three years and is thus included in the short-term period. Imperial Brand's risk time horizon covers 10 years, as recommended by CDP[1] and is presented in the table on page 62. However, in line with requirements the analyses have considered a longer time frame of at least until 2050.

The climate scenario analysis covers key owned and third-party sites. Overall, 44 operational sites and 9 leaf sourcing regions, covering 31 countries, were identified for a "deep dive" risk assessment. Sites and sourcing regions included were chosen due to their strategic and financial importance to Imperial Brands.

This structured approach was taken to define a short-list of the potentially most significant climate risks and opportunities within the portfolio. The short-list is the result of a thorough data and document analysis and a quantitative financial value chain analysis. The short-list was then carried forward for further analysis for financial impact. For the scenario analysis KPMG's Climate IQ tool was used. This tool combines climate science, macro-economics and financial information.

The table on page 62 sets out the different types of risks aligned to Imperial Brands risk framework, and the associated maximum value at risk (MVAR). MVAR is defined as the accumulated maximum risk quantum over 10 years between the 1.5°C and 4°C scenarios. The MVAR relates to the gross risk and assumes no mitigation or adaptation activities by Imperial. The dots represent the degree of significance of the risk in each of the 1.5°C and 4°C scenarios comparing to the total of the Company asset base.

The MVAR calculation does not include inflation, nor does it take into account the impacts of government policies, or any mitigating action already taken. To qualify the MVAR values, an expected impact has been added to reflect the position once mitigation or adaptation associated with our strategy is applied – such as the Imperial Brands Net Zero 2040 ambition. Risks and opportunities have been prioritised based on the findings of the scenario analyses.

### Scope

The scenario analysis covers both physical and transition risk for Imperial Brands PLC, inclusive of Fontem Ventures and ITG Brands , but not Logista[2], who voluntarily make a TCFD disclosure separately (see Logista's 2021 Annual Report, page 83). We have assessed the impact of climate change on Logista and have found nothing to represent a material risk at Group level.

1. A not-for-profit charity previously known as the Carbon Disclosure Project https://www.cdp.net/en
2. Logista is not a FTSE listed company and therefore is not under mandatory TCFD disclosure rules.

## Climate-related risks and opportunities

| | | Type of Risk[4] | Maximum value at risk calculated over time frame (£m) | Timeframe: Short (0-2y) | Timeframe: Medium (3-5y) | Timeframe: Long (6-10y) | Scenario: 1.5ºC | Scenario: 4ºC | Scenario: Net Zero by 2040 | Mitigation through Strategy |
|---|---|---|---|---|---|---|---|---|---|---|
| **Physical risks** associated with climate change | | | | | | | | | | |
| **Chronic** | Impact of physical hazards (e.g. riverine flooding) on key assets could lead to a decrease in revenues due to supply chain disruption and its effect on production capacity | Product supply | 10 | | | | | | | The group takes out insurance for the coverage of this risk within direct operations, and maintains business contingency plans. |
| | Chronic drought risk[2] could lead to a decrease in revenues due to supply chain disruption and its effects on production capacity | Product supply | nq | | | | | | | The group takes out insurance for the coverage of this risk within direct operations, and maintains business contingency plans. |
| | Changes in tobacco crop yield[2] resulting from climate change could lead to decrease in revenues due to agricultural supply chain disruption and its effects on production capacity | Product supply | nq | | | | | | | Expected to be partially offset by an increase in land suitable for the growing of tobacco, and the flexibility of the leaf sourcing supply chain, allowing for location selection on a yearly basis. |
| **Acute** | Increased frequency and severity of extreme weather events could lead to a decrease in revenues due to supply chain disruption and its effects on production capacity | Product supply | 2 | | | | | | | The group maintains supply chain contingency plans and insurance cover for the coverage of this risk within the supply chain. |
| | More severe hurricane risk[2] could lead to a decrease in revenues due to supply chain disruption and its effects on production capacity | Product supply | nq | | | | | | | The group maintains supply chain contingency plans and insurance cover for the coverage of this risk within the supply chain. |
| **Transition risks** associated with transitioning to a low-carbon economy | | | | | | | | | | |
| **Emerging regulation** | Increased costs could result from emerging regulations such as carbon taxation[1] and the carbon pricing mechanism, predicted to begin in 2024. | ESG Delivery | 20 | | | | | | | It is expected that we will mitigate this through our net zero strategy, aiming to be net zero in our direct operations by 2030. |
| **Market** | Materials costs in NTM and Leaf could increase due to increases in the operating costs of suppliers and raw materials. This could reduce access to capital. Key impact is excepted to be from the introduction of carbon taxation through our supply chain, predicted to begin in 2024. | ESG Delivery | 360 | | | | | | | It is expected that mitigation will be possible through partnership with key suppliers to drive change in supply chain before financial impact occurs. |
| **Climate-related opportunities** | | | | | | | | | | |
| **Energy sourcing** | Energy supply costs[3] could decrease due to resource efficiency and the use of zero emission sources of energy in our direct operations | ESG Delivery | 11 | | | | | | | The Group is prioritising early action to limit costs and mitigate impact, reflected in the step change in renewable electricity reporting in our performance summary. |

Footnotes
1. Assuming no decarbonisation measures are taken by Imperial Brands
2. Impact has been quantified non-financially
3. Cost avoidance from energy transition
4. In accordance with Imperial Brands risk assessment
5. % of asset value

- Mild Change[5] <0.2%
- Moderate Change[5] 0.2%-1%
- Significant Change[5] >1%

Nq= not quantifiable. These risks have not been quantified due to the complexity in calculating financial impact and lack of tool capability. Further assessment is required in these areas to develop a link to financial impact, including an assessment of materiality when taking into account mitigation and action plans in place. .

### Physical risk

Scenario analysis has considered the physical risk from coastal inundation, soil subsidence, surface water flooding, riverine flooding, extreme wind, forest fire and water stress to our direct operations, and our tobacco purchasing regions. Of particular note, the analysis considered the impact of storm damage, which to date has been the most prevalent impact of climate change on the business. The analysis predicts that storms are likely to increase resulting in an increase of costs at a rate of 5% but despite this it is not likely to result in a significant impact at Group level. As shown in the table on page 62, the work completed demonstrates that the business is relatively unaffected in both climate scenarios in the short term for physical risk, both chronic and acute.

In the 4°C scenario, the probability of physical risks in the medium and long term increases compared to the aimed 1.5°C scenario, but financial impact can still be considered not significant overall. When viewed by location and based on the third party model, Spain is most affected by physical risks. The Spanish factory is located close to a river, and as such it is considered to have the highest risk of riverine flooding as well as a risk of drought in a 4°C scenario. When considered at Group level, this impact is immaterial. Physical risks in other locations were also considered immaterial.

Other physical climate risks, though not considered material at Group level, continue to be monitored locally as part of business continuity planning. This confirms that our current approach, where climate risks are integrated into local business plans, and do not form a material risk at Group level, will continue to serve us.

### Transition risk

Our scenario analysis indicates the most significant climate-related impacts for Imperial Brands are the transition risks common to FMCG organisations operating in the same markets. Imperial's greatest exposure is to the impact of changing materials costs and emerging climate-related regulation, such as carbon pricing. As indicated in the table, materials cost represents the biggest absolute risk as a result of climate change, however the accumulated value over the next 10 years is still likely to be less than 1% of our spend if mitigating action is not taken.

This result confirms that our suppliers' cost base is also likely to increase if they are not already taking steps towards becoming net zero. The analysis indicates that the increase in material costs are mostly represented by 'non tobacco materials' (NTM) and leaf.

Our climate ambitions include targets for reduction of Scope 3 emissions, and we are working with key suppliers to reduce these. For more information, please refer to the section on Metrics and Targets on page 65. We anticipate that material costs can be significantly reduced by meeting our long-term ESG strategy, particularly as we begin to collaborate with partners on Scope 3 emissions.

### Impact of risks in financial reporting

Imperial Brands' long-term financial planning covers a 3 year period. Based on the outcomes of this report, increased physical risks and transition risks associated with climate change are not significant over this time period, and as such are not included in long term financial planning. In the coming year we do not expect the risk associated with climate change to be material to the Group, with the largest expected not to exceed 13m GBP (and 56m GBP over the 3-year period).

For other financial statement areas that cover a period beyond the financial planning of 3 years and beyond the Imperial Brand's risk time horizon of 10 years, we have considered the MVAR of the material climate-related risks for the relevant period of those specific areas. For example: assessing goodwill and intangible assets impairment assessment (note 11) and recoverability of deferred tax assets (note 22). We also challenged the Directors' considerations of climate change in their assessment of going concern (note 1) and viability and associated disclosures.

### Climate-related opportunities

Proactive ESG management represents our biggest climate opportunity. We have committed to a series of targets, and outline our Net Zero strategy further in the Metrics and Targets section on page 65. By successfully implementing this Net Zero strategy, we can maximise the benefits of the green energy transition and avoid carbon costs across the period in the 1.5°C climate scenario. We have a glide path and transition plan to achieve Net Zero which we expand on in Metrics and Targets on page 65 and in our ESG Review on page 41.

Our analysis shows us that in either scenario, our strategic approach should have a positive effect in managing costs. However, we will continue to monitor the impact that carbon prices could have on our cost base and consider the business' ability to manage or pass through some or all the costs. If new climate-related risks are identified, we are committed to aligning our strategy accordingly and integrating the respective costs into our profit and loss.

### Assumptions

This analysis assumes that no action is taken to decarbonise in the supply chain, or within our operations. The work also does not take into account inflation, consider the impacts of government policies or subsidies, or currently existing mitigation. Material costs stated in the analysis include the costs of physical risk materialising in the supply chain.

During FY23 we will build on the scenario analyses conducted in 2022

### Our ESG Strategy can turn risk into opportunity

Figure: Potential Carbon Cost of Scope 1 for 1.5°C Scenario

to gain a more detailed longer term understanding of the financial materiality of the climate risks and opportunities identified.

## RISK MANAGEMENT

For a number of years, we have included information on managing and mitigating climate-related risks in both our ESG reporting and CDP disclosures. We are aligned to CDP's definition of risk terminology.

In 2021 our ESG materiality assessment placed climate change as our second most material issue, and as such it is included in both our ESG strategy, and focused on separately as part of our risk management process.

We integrate climate-related risks and opportunities in our business strategy and financial planning. Whilst we have assessed both the physical (climatic) and transitional (technological) risks that may impact our business, we do not focus on climate change as a principal risk in itself. Instead we find greater value in ensuring that the risks and opportunities are assessed by each risk owner. With the support of subject matter experts, risk owners review the potential cause and likelihood of any risk materialising. As a business we are accustomed to managing risk across a variety of topic areas, including emerging regulatory requirements related to climate change, and we apply the same process for all risk areas. For further information on how we manage risk, please refer to the risk section on page 82.

The Board is responsible for setting the Group's risk appetite and is ultimately accountable for managing the Group's risks and opportunities. It delegates responsibility for managing the Group risks and opportunities to the Audit Committee. The Audit Committee is responsible for approving the risk management approach and for oversight of its ongoing effectiveness. The Group's formal approach to risk management includes an update to the Board on a twice-yearly basis on the Group's risk register documents, including our EWRMF.

Our EWRMF specifies accountability for the identification, assessment and mitigation of risks throughout the business and is based on the "three lines of defence" model. The first line of defence is our people in operational roles, who identify potential risks and opportunities at an operational level.

The ESG team, led by the Global ESG Director, are subject matter experts and are part of the second line of defence. They develop appropriate policy, process, control structures and analyse the impacts of the risks upon the business in line with the Board's risk appetite. Therefore, the second line of defence provides support to the first line of defence.

The ESG team is informed about climate-related risks and opportunities that occur at a local and global level related to the achievement of our climate targets.

Our third line of defence consists of our Internal Audit Team who independently review compliance with, and the effectiveness of, our risk management and internal control system. On an intermittent basis, we also commission a third party to perform its own analyses to validate risks identified by the business.

Due to the long term nature of climate related risks, and in order to make this disclosure, a cross functional project team considered actions relating to these analyses covering and beyond the standard risk time-frame we typically consider for risk and financial planning. In accordance with the listing rule, we have taken into account the period 2022-2050.

### Transition Risk Management

The transition risks identified in our climate scenario analysis are embedded in the risk framework and are communicated with the effected sites and functions; action plans are being implemented accordingly, particularly for the primary risks: carbon taxation and materials costs.

Physical and transition risk within our supply chain and direct operations related to climate change are considered on each of our principal risks. This helps us manage and monitor climate risks for core business decisions.

Please also view our 2022 risk matrix on page 82 where we demonstrate climate related and regulatory risk to be of high importance to the Company. We integrate our management of these into our responsible business functions. In the future, Imperial Brands aims to conduct climate scenario analysis on a regular basis.

## METRICS AND TARGETS

We monitor the risks identified and put in place intervention or mitigation measures where necessary. However, our targets on climate change represent multiple business opportunities: there are cost and environmental benefits to energy savings, and to efficiency programs.

Since 2019, we have had Scope 1, 2 and 3 targets, consistent with reductions required to limit climate warming to 2°C, approved by the Science Based Targets initiative (SBTi). However, in FY21 we set our sights higher and joined the Business Ambition for 1.5°C Race to Zero initiative, a campaign led by the SBTi. For more details on how this commitment impacts our climate change strategy, please see 'Our plan' on page 64.

To drive business focus in FY23, for the first time, we will have remuneration relating to performance against our climate change objectives.

We have carefully considered the outcome of the analysis, and aligned our climate change metrics and targets with our most material risks: Carbon Pricing and Material Costs.

### Carbon pricing

Our carbon pricing risk relates to the likely increase of carbon taxation on emissions within our operations. To drive our emissions down, we have joined Business Ambition for 1.5°C, a campaign led by the SBTi. This means we are committed to reaching science-based net-zero emissions by 2040. To achieve this, we will reset our science-based targets for carbon, increasing our ambition in line with 1.5°C global warming limits and submit them for approval by the SBTi.

Further, in order to support our Net Zero strategy, we also aim to explore an internal carbon pricing mechanism. For more on our FY22 performance and future plans to decarbonise our operations, please see page 41.

### Materials costs

The materials cost relates to the likely impact of carbon taxation on emissions, and the impact of physical risks within our value chain. To drive down emissions within our value chain, we have an SBTi approved supplier engagement target: 50% of our suppliers by spend will set science-based targets by 2024. This target helps us reduce our Scope 3 emissions and thus is fully aligned with our 2040 Net Zero ambition. In our ESG Review we report that 34% of suppliers by spend had already achieved this target. As part of our submission to SBTi, we are also working towards validating our Scope 3 data[1].

Our target to achieve Net Zero in our entire value chain by 2040 is also supported by an emission reduction target of Scope 3 of 20% by 2030. In FY23 we will expand on how we will partner to collectively drive emissions down within our supply chain.

### Carbon transition plan for our operations

Our methodology for calculating Scope 1, 2 and 3 emissions is compliant with the GHG Protocol and we disclose our environmental performance in CDP. The scope of targets set includes companies, entities or groups over which we have operational control.

For more information on our 2022 performance, and further information on our current ambitions related to climate and ESG, please refer to our company website and our ESG: People and Performance Summary 2022.

### Our plan (from a 2017 baseline year)

**2025**

**100%**
of our purchased grid electricity will come from traceable renewable sources

Reduce absolute scope 1 and 2 GHG emissions by more than

**50%**

**2030**

**100%**
of the energy sourced for our operations from renewable sources

**Be net zero**
In our direct operations (scope 1 and 2 GHG emissions)

**Reduce:**

- Our total carbon footprint (absolute scope 1,2 and 3 GHG emissions) by 30%
- Absolute scope 3 emissions by 20%
- Energy consumption by 25%

**2040**

Our value chain will be

**Net zero emissions**
(absolute scope 1,2 and 3 GHG emissions)

1. Our Scope 3 emissions include the following categories: Purchased Goods and Services, Capital goods, Fuel and energy related activities, Upstream transportation and distribution, Waste generated in operations, Business travel, Employee commuting, Downstream transportation and distribution, Use of sold products, End of life treatment of sold products, Investments.

# EUROPE REGION

**Aleš Struminský**
President, Europe Region

## AT A GLANCE

**Tobacco volume**
-4.1%

**Tobacco & NGP net revenue***
+0.2%

**Tobacco net revenue***
-1.0%

**NGP net revenue***
+34.2%

**Tobacco & NGP adjusted operating profit***
-5.2%

* Change at constant currency.

## HEADLINES

- Market share growth in UK and Spain driven by local jewel brands strategy; share declines in Germany
- Industry volumes affected by increased travel, with consumer buying patterns reverting to historical channels and markets
- Price mix improved in the second half, driven by price phasing
- Strong NGP performance with growth across heated tobacco, vapour and modern oral
- Successful Pulze and iD trials in heated tobacco supported further launches in Italy, Portugal and Hungary
- Successful trial of all-new vapour device blu 2.0 in France validates roll-out into UK
- Adjusted operating profit decline also reflects increased investment behind strategic initiatives

Our results in Europe should be viewed against a strong comparator year, which benefited from COVID-related travel restrictions and changes in consumer buying patterns. The lifting of restrictions and increased travel have led to volumes reverting to pre-COVID channels and markets.

Strong market share growth in the UK was driven by investment behind our strategic initiatives, with local jewel brand, Embassy, making gains in under-penetrated regions of the country, and share gains in fine cut. As expected, our initiatives to rejuvenate our brands in Germany are taking time, with activations on our largest brand JPS, focused on appealing to a wider demographic of adult smokers. Our initiatives with Gauloises, West and Davidoff have begun to gain some traction in Germany. In Spain, we grew market share driven by our brand portfolio approach, offering consumers choice across the price ladder and leveraging local heritage brands.

| | | Full year result | | Change | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | Actual | Constant currency |
| Tobacco volume | bn SE | **121.5** | 126.7 | -4.1% | |
| Total net revenue | £m | **3,472** | 3,551 | -2.2% | +0.2% |
| Tobacco net revenue | £m | **3,306** | 3,425 | -3.5% | -1.0% |
| NGP net revenue | £m | **166** | 126 | +31.4% | +34.2% |
| Adjusted operating profit | £m | **1,562** | 1,670 | -6.5% | -5.2% |

Volumes for the region declined 4.1%, as expected, with sales increasingly reverting to pre-COVID channels and markets during the year. This has resulted in increased volume declines in higher margin northern European markets such as UK, Germany and Scandinavia, partially offset by increased volumes in lower margin southern European holiday destinations such as Spain and strong growth in the duty free channel.

Tobacco net revenue was down 1.0% at constant currency, reflecting the volume declines and price mix of 3.1%. Price mix was effected by the timing of price increases and the adverse geographic mix effects as COVID-19 restrictions were lifted. Price increases taken in Germany and the UK in the latter part of the first half of the year led to improved tobacco price mix in the second half of 6.0%, compared to price mix of -0.2% in the first half of the year.

Our priority in Ukraine remains the safety and wellbeing of our 600 Ukrainian colleagues and families. In the second half we were able to restart production at our factory in Kyiv, including some contract manufacturing. This remains a fast-moving situation, which we continue to monitor closely.

Our NGP portfolio has performed well with net revenue up 34.2% at constant currency, and with growth across all three categories. A positive response from both consumers and the trade to our launches of Pulze and iD in the Czech Republic and Greece has supported further share gains during the second half. These market learnings have reinforced our confidence in the recent launches of Pulze and iD in Portugal and Hungary as well as in Italy, Europe's largest heated tobacco market. In vapour, the successful trial of a new pod-based vapour proposition, blu 2.0, in four selected cities in France has led us to roll out the product to the UK market in November 2022. This is the first product to be delivered from our refocused innovation pipeline. This consumer-led and partnership-based approach to innovation has also supported the launch in the UK of blu bar, a new disposable vapour device, to meet the rapidly growing demand in this category. In modern oral nicotine, we are continuing to evolve our offerings to meet consumer preferences and have achieved strong growth in Sweden, Norway and Austria.

Adjusted operating profit for the year declined 5.2% at constant currency against a strong comparator year, which benefited from consumers buying in higher margin northern European domestic markets. The profit performance also reflects increased investment behind our strategic initiatives in both the combustible and NGP opportunities in Europe.

| PRIORITY MARKET | PERFORMANCE |
|---|---|
| **Tobacco share** | |
| Germany<br>• 19.0% (-85 bps)<br>• 12% of Group net revenue | Market size declined 4.1% in the year against a strong prior-year comparator, which benefited from COVID-19 travel restrictions. Our market share declined despite increased investment behind our strategy, though we have started to see stabilisation in Gauloises and West following brand equity investment. Our brand portfolio is well positioned across price segments, after we took action to tier Gauloises variants within premium and repositioned portfolio heritage brands within the lower-tier value segment to offer consumers choice in both cigarettes and fine cut tobacco. We continue to invest behind JPS to rejuvenate brand equity, with a pack redesign and targeted point-of-sale marketing campaigns coupled with retailer advocacy programmes driving increased consumer awareness. |
| UK<br>• 41.6% (+85 bps)<br>• 7% of Group net revenue | Market size declined 11% in the year as COVID-19-related travel restrictions unwound in the second half of the year and there was growth in illicit trade as borders reopened. Our strong market share gains reflected investment in our portfolio, particularly behind the local jewel brand, Embassy, and in fine cut tobacco with our Players Easy Rolling and Riverstone brands. We also invested in new sales effectiveness initiatives to enhance on-shelf availability with retailers. Price increases taken towards the end of the first half, the first increases in two years, led to improved price mix in the second half. |
| Spain<br>• 28.3% (+5 bps)<br>• 4% of Group net revenue | Tobacco market volumes grew 4.8% following two years of decline due to COVID-19-related restrictions. In the first half of the year, we achieved price increases across key product lines for the first time in five years. This led to temporary share declines in the first half, which we have been able to recover in the second half. We continued to invest behind our local jewel brands and captured downtrading through a super-king variant of our West brand. Our increased focus and investment in these brands has helped us to record three consecutive years of share gains. |

# AMERICAS REGION

**Kim Reed**
President and CEO, Americas Region

## AT A GLANCE

**Tobacco volume**
+2.0%

**Tobacco & NGP net revenue***
+4.4%

**Tobacco net revenue***
+5.2%

**NGP net revenue***
-29.7%

**Tobacco & NGP adjusted operating profit***
+5.8%

* Change at constant currency.

## HEADLINES

- Cigarette share growth up 90 basis points to 10.1% with gains across all three of our focus price segments
- Investment in strategic initiatives continue to drive operational improvements
- Revenue growth reflects strong cigarette pricing offset by adverse product mix
- NGP net revenue declined as we did not participate in the category price discounting and some uncertainty linked to the FDA's Marketing Denial Orders for some of our myblu products
- Adjusted operating profit growth reflects lower litigation costs and higher investment

We delivered a strong combustible tobacco performance in the US, which is our largest single market, contributing around 36% of Group net revenue.

Tobacco volumes have grown by 2.0% against an industry volume decline of 7.9%. This out-performance reflects the improvement in our US cigarette market share of 90 basis points to 10.1%, the fourth consecutive year of market share growth. Our volumes also reflect an increase in customer inventories of around 180 million sticks at the period end as orders were pulled forward ahead of the expected landfall of Hurricane Ian and anticipated price increases. Excluding this inventory movement, our volumes were up around 1.0% year on year.

Our share growth benefited from our increased investment in sales execution and our brands, leading to share gains in three of the four price segments in which we operate. Additionally, we retained the share captured in the deep discount segment by our Sonoma and Crowns brands as a result of our agile response to KT&G's

| | | Full year result | | Change | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | Actual | Constant currency |
| Tobacco volume | bn SE | **21.9** | 21.5 | +2.0% | |
| Total net revenue | £m | **2,826** | 2,534 | +11.5% | +4.4% |
| Tobacco net revenue | £m | **2,784** | 2,478 | +12.3% | +5.2% |
| NGP net revenue | £m | **42** | 56 | -25.1% | -29.7% |
| Adjusted operating profit | £m | **1,179** | 1,037 | +13.8% | +5.8% |

exit from the US market in the first half of the financial year. We estimate our underlying share growth, excluding the KT&G-related share gains, was over 65 basis points.

Industry volume declines of 7.9% are against a strong comparator year that benefited from COVID-19-related changes to consumer buying patterns as a result of lockdowns and fiscal stimulus payments. Volumes also reflect some increased pressure on consumer spending leading to downtrading, although our brand portfolio is well-placed across key price segments.

On a constant currency basis, tobacco net revenue increased by 4.4%, benefiting from four price increases in the premium and traditional discount segments in the year. Two price increases were taken in the deep discount cigarette segment. However, over the period, this strong cigarette pricing was offset by adverse product mix with robust growth in the deep discount cigarette segment, resulting in +3.2% price mix for the year.

We continue to invest in our strategic priorities to build brand equity and strengthen sales force execution across our portfolio. For example, in the premium segment our Winston pack redesign launched in March has been rolled out nationally and has been supported by a new reward programme to drive participation together with multi-pack offers. With an increased sales force, we continue to invest to improve our sales execution through training and by adopting best practices such as route optimisation and better information systems. We are also achieving improved traction following the expansion of our key account team.

Our mass market cigar portfolio grew market share, driven by strong performances by Backwoods and Dutch Leaf, and we retain our position as the second largest manufacturer in the US. Our share gains partially offset the overall market decline in mass market cigars as we cycled against an exceptionally strong comparator period. As consumers return to work, they found fewer opportunities to enjoy mass market cigars and buying patterns are returning to pre-COVID levels. However, we remain well positioned to capture consumer demand in this category with our portfolio of iconic heritage brands.

Our NGP revenues were down 29.7% on a constant currency basis, reflecting the continued competitive environment with greater discounting in the category and some uncertainty linked to the FDA's Marketing Denial Orders (MDOs) for some of our myblu products issued in early April. We were disappointed with the FDA's decision to issue the MDOs and are seeking to overturn the decision through the administrative appeals process. Our products remain in the market during the appeals process. Following validation of our refreshed consumer marketing proposition for blu in trials in Charlotte, North Carolina, we have begun a roll-out into new territories.

Adjusted operating profit was 5.8% higher at constant currency driven by a stronger tobacco performance and lower NGP losses. Increased investment in strategic priorities and higher Master Settlement Agreement inflation-indexed costs were offset by the non-repeat of the litigation settlement cost in Minnesota and Texas in the prior period.

# AFRICA, ASIA AND AUSTRALASIA REGION

**Paola Pocci**
President, Africa, Asia and Australasia Region

## AT A GLANCE

**Tobacco volume**
-7.5%

**Tobacco & NGP net revenue***
-0.5%

**Tobacco net revenue***
-0.1%

**NGP net revenue***
Exit

**Tobacco & NGP adjusted operating profit***
+15.6%

* Change at constant currency.

## HEADLINES

- Performance affected by the decision to exit Russia; successful transfer of business as going concern
- Excluding Russia: volumes +3.2%; tobacco net revenue +3.9%
- Strong regional financial delivery driven by Australia, Africa and Middle East
- Australia market share gains supported by launch of Lambert & Butler and better key account execution
- Market share and financial performance gains in Africa driven by clear portfolio focus
- NGP net revenue decline reflects market exits from Russia and Japan
- Operating profit delivery supported by more focused approach to investment

Pack image is internal only.

Our volume and tobacco revenue performance in the Africa, Asia and Australasia region was affected by our decision to initially suspend operations in Russia and then subsequently exit the market. We were able to successfully transfer the business as a going concern to local investors in Russia in April. Excluding the impact of Russia, regional volumes were up 3.2% and net revenue increased 3.9% at constant currency. There was an immaterial impact on profit.

Our Africa, Asia and Australasia regional performance benefited from a more focused approach under the new regional structure and leadership team. The strong financial performance, excluding the impact of the Russian market exit, was driven by focused investment behind sales execution and marketing in line with our strategy to drive value from our broader market portfolio.

| | | Full year result | | Change | |
|---|---|---|---|---|---|
| | | **2022** | *2021 | Actual | Constant currency |
| Tobacco volume | bn SE | **77.5** | 83.7 | -7.5% | |
| Total net revenue | £m | **1,495** | 1,504 | -0.6% | -0.5% |
| Tobacco net revenue | £m | **1,495** | 1,498 | -0.2% | -0.1% |
| NGP net revenue | £m | **0** | 6 | -100.0% | -100.0% |
| Adjusted operating profit | £m | **700** | 598 | +17.1% | +15.6% |

* The 2021 net revenue and adjusted operating profit metrics exclude the contribution of the Premium Cigar Division from that financial reporting period following its divestment in October 2020. The Premium Cigar Division contributed £21 million to net revenue and £3 million to adjusted operating profit in 2021.

Excluding Russia, regional volumes had a strong recovery in the Middle East following prior year COVID-related disruptions and market-share-related volume gains in the Ivory Coast, Morocco and Taiwan.

Our Australia market share and financial performance benefited from the move to establish a clear brand offering at each of the key price points. This led to the launch of Lambert & Butler in the fifth price tier, which delivered incremental share gains. Our performance also benefited from improved supply chain delivery and investment in key account sales execution.

Our African markets continue to perform strongly, driven by our targeted brand approach. By taking selective local jewel and key international brands we have focused brand portfolios for each country to meet the differing adult consumer demands. In the Ivory Coast, positive share performance benefited from consumer activation and increased distribution of Fine. Trade promotions and activation activities behind Gauloises resulted in market share growth in Morocco.

Tobacco net revenue was down 0.1% at constant currency, reflecting the decision to exit Russia. Volume declines of 7.5% were offset by price mix of 7.4%. This price mix benefited from the exit from Russia, which has high volumes and low pricing. Excluding this, price mix was up 0.7% due to the growth in lower margin volume in the Middle East, as sales patterns returned to pre-COVID levels, and positive net pricing in our African portfolio.

NGP net revenue performance declined to zero, reflecting our decision to withdraw our NGP offerings from Russia and Japan in the prior financial year.

Adjusted operating profit was up 15.6% at constant currency, driven by strong performance in Australia, Africa and the Middle East and lower NGP investment compared to last year, following our decision to exit Japan and Russia.

| PRIORITY MARKET | PERFORMANCE |
|---|---|
| **Tobacco share** | |
| Australia<br>• 31.8% (+20 bps)<br>• 4% of Group net revenue | Investment in our total brand portfolio strategy and establishing a clear offering at each of the key price points helped us grow market share. The launch of Lambert & Butler in the fifth price tier enabled a clear differentiation between Parker & Simpson and JPS in the higher price tier. The performance of JPS roll your own was supported by our launch of new pack size variants. Market dynamics have stabilised following changes to the excise regime, although the market remains highly competitive, with illicit trade also at historically high levels. |

# DISTRIBUTION

## AT A GLANCE

**Net revenue***

+0.8%

**Adjusted operating profit excluding eliminations***

+1.8%

**Adjusted operating profit margin***

+26 bps

**Adjusting operating profit including eliminations***

-1.2%

* Change at constant currency.

Our Distribution is made up of our 50.01% stake in Logista. Volumes reflected the lifting of COVID-19-related travel restrictions. While inflation has been exacerbated by the Russian invasion of Ukraine and transport union strikes have impacted economic growth in Spain, the business has been able to mitigate these pressures.

Net revenues at £1,046 million were 0.8% higher on a constant currency basis as good performance in Iberia and Italy offset the continued weak performance in France.

In Iberia net revenue growth was driven by:

- tobacco and related products which benefited from an increase in tobacco volumes and growth in convenience products
- transport services with strong demand for Logista Freight (long-distance), increased B2B activity at parcel delivery business (Nacex) and Logista Parcel
- pharmaceutical distribution expansion of customer base and product offering

In Italy, net revenues were supported by good tobacco and NGP volumes together with growth in convenience products.

In France, the removal of COVID-related travel restrictions led to weak tobacco volumes somewhat offset by the positive performance in convenience product distribution.

The adjusted operating profit margin increased by 26bps at constant currency as the focus on cost control, and contracts that allow cost changes to be passed through, mitigated inflationary pressures. After eliminations, the adjusted operating profit contribution to the Group reduced 1.2% on a constant currency basis, as the costs of restructuring at Logista were expensed in adjusted operating profit. This is in line with the reporting policy set out in our FY21 Results which outlined that no further restructuring costs outside of the 2021 Strategic Review Programme would be recognised in 2022.

In line with Logista's strategy to accelerate growth in European non-tobacco, the company announced a number of acquisitions during the period. Together these acquisitions total €175 million, and, with the exception of Speedlink, which completed in FY22, are expected to complete in FY23. The acquisition of 60% of Transportes El Mosca, a Spanish international transportation company, announced in June, will place Logista as the second largest temperature controlled transportation company in Spain once fully consolidated, and brings both maritime and road transportation assets to the Group. Earlier in the year, Logista announced the acquisition of 70% of Speedlink Worldwide Express B.V, a Dutch express courier company and in September it announced the acquisition of 100% of Carbó Collbatallé, a Spanish company specialising in cold transportation in the food sector. In February 2022, Logista disposed of Supergroup S.A.S., a subsidiary in France, that had already been classified as held for sale at the end of the prior financial year.

In line with other Imperial-owned entities, we continue to benefit from an inter-company 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 £1.9 billion, with movements in the cash position during the 12-month period varying from a high of £2.2 billion to a low of £1.3 billion, primarily due to the timing of excise duty payments. At 30 September 2022, the loan position was £2.1 billion compared to £1.8 billion at 30 September 2021.

| | | Full year result | | Change | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | Actual | Constant currency |
| Net revenue | £m | **1,046** | 1,069 | -2.1% | +0.8% |
| Adjusted operating profit | £m | **254** | 258 | -1.7% | +1.8% |
| Adjusted operating profit margin | % | **24.3** | 24.1 | +14bps | +26bps |
| Eliminations | £m | **(1)** | 7 | -118.7% | -119.2% |
| Adjusted operating profit (inc. eliminations) | £m | **253** | 265 | -4.5% | -1.2% |

# STRENGTHENING OUR PERFORMANCE

**Lukas Paravicini**
Chief Financial Officer

## SUMMARY FINANCIAL INFORMATION

**Volumes**

-4.7%
led by declines in market size and exit from Russia, offset by market share gains

**Net revenue**

+1.5 %
driven by robust price mix

**Reported operating profit**

-14.7%
driven by exit from Russia and non-repeat of gains on disposal

**Adjusted operating profit**

+1.8%
driven by reduced NGP losses

**Reported basic EPS**

165.9p
a decrease of 44.7%

**Adjusted EPS**

265.2p
an increase of 4.9% on a constant currency basis

**Adjusted operating cash conversion**

102%
2021: 83%

**Adjusted net debt/EBITDA**

2.0x
2021: 2.2x

"Our strong cash performance has enabled us to strengthen our balance sheet and accelerate shareholder returns. We remain focused on transforming the business."

This year's financial results reflect our continued progress against our five-year strategy. In the period, Group net revenues grew 1.5% and Group adjusted operating profit rose 1.8%, both on a constant currency basis.

Reported revenue declined 0.7% driven by adverse translation FX. Reported operating profit reduced 14.7%, mainly due to exit charges related to the Russian asset disposal (£399 million) and the non-recurrence of gains on disposal of the Premium Cigar Division (£281 million) in the comparator period.

Cash generation remains a key focus and has supported the delivery of £2.6 billion of free cash flow, with 102% adjusted operating cash conversion. The strong cash generation enabled us to reduce reported net debt by £0.9 billion to £8.5 billion and delivered adjusted net debt/EBITDA in line with expectations, reducing by 0.2x to 2.0x in FY22.

As recently announced, the strengthened balance sheet and achievement of our leverage target has enabled us to begin an ongoing, multi-year share buyback programme, where we will initially repurchase up to £1.0 billion of shares during FY23.

This year represented the final year of the strengthening phase of our five year plan as previously announced. Next year leads us into our growth phase, positioning the business to capitalise on the gains and investments made over the last two years.

## SUMMARY INCOME STATEMENT

| £ million (unless otherwise indicated) | Reported 2022 | Reported 2021 | Adjusted 2022 | Adjusted **2021 |
|---|---|---|---|---|
| **Revenue/net revenue*** | | | | |
| Tobacco & NGP revenue/net revenue | **22,795** | 23,202 | **7,793** | 7,589 |
| Distribution revenue/net revenue | **9,756** | 9,589 | **1,046** | 1,069 |
| **Operating profit** | | | | |
| Total Tobacco & NGP | **2,472** | 2,991 | **3,441** | 3,305 |
| Distribution | **212** | 148 | **254** | 258 |
| Eliminations | **(1)** | 7 | **(1)** | 7 |
| Group operating profit | **2,683** | 3,146 | **3,694** | 3,570 |
| Net finance costs | **(117)** | 81 | **(326)** | (417) |
| Share of profit/(losses) of investments accounted for using the equity method | **(15)** | 11 | **9** | 7 |
| Profit before tax | **2,551** | 3,238 | **3,377** | 3,160 |
| Tax | **(886)** | (331) | **(755)** | (714) |
| Profit for the year | **1,665** | 2,907 | **2,622** | 2,446 |
| Earnings per ordinary share (pence) | **165.9** | 299.9 | **265.2** | 246.5 |
| Dividend per share (pence) | **141.17** | 139.08 | **141.17** | 139.08 |

* Reported revenue includes duty, similar items, distribution and sale of peripheral products, which are excluded from net revenue; net revenue compromises reported revenue less duty and similar items, excluding sale of peripheral products and distribution revenue.

** The 2021 net revenue and adjusted operating profit metrics exclude the contribution of the Premium Cigar Division from that financial reporting period following its divestment in October 2020. The Premium Cigar Division contributed £21 million to net revenue, £3 million to adjusted operating profit, £4 million to adjusted share of (loss)/profit accounted for using the equity method and £(2) million to adjusted tax in 2021.

## SUMMARY CASH FLOW STATEMENT

| £ million (unless otherwise indicated) | Reported 2022 | Reported 2021 | Adjusted 2022 | Adjusted 2021 |
|---|---|---|---|---|
| **Group operating profit** | **2,683** | 3,146 | **3,694** | 3,573 |
| Depreciation, amortisation and impairments | **660** | 815 | **244** | 269 |
| **EBITDA** | **3,343** | 3,961 | **3,938** | 3,842 |
| Loss/(profit) on disposal of subsidiary | **428** | (281) | **–** | – |
| Other non-cash movements | **56** | (29) | **(20)** | (79) |
| **Operating cash flows before movement in working capital** | **3,827** | 3,651 | **3,918** | 3,763 |
| Working capital | **40** | (664) | **40** | (664) |
| Tax cash flow | **(681)** | (820) | **(681)** | (820) |
| **Cash flows from operating activities** | **3,186** | 2,167 | **3,277** | 2,279 |
| Net capex | **(177)** | (150) | **(177)** | (150) |
| Restructuring | **–** | – | **(91)** | (112) |
| Cash interest | **(358)** | (400) | **(358)** | (400) |
| Minority interest dividends | **(89)** | (93) | **(89)** | (93) |
| **Free cash flow** | **2,562** | 1,524 | **2,562** | 1,524 |
| Acquisitions/disposals | **14** | 845 | **14** | 845 |
| Shareholder dividends | **(1,320)** | (1,305) | **(1,320)** | (1,305) |
| Purchase of ESOT shares | **(1)** | – | **(1)** | – |
| **Net cash flow** | **1,255** | 1,064 | **1,255** | 1,064 |

**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 useful 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 the accounting policies accompanying our financial statements and the APM section within the supplementary information.

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.

While we believe that adjusted performance measures can provide helpful information which supplements reported measures, we are also aware of the need to ensure that an appropriate balance is maintained between the two sets of reporting metrics, with adjusted disclosures not being given greater prominence than GAAP measures. In line with this, we have reduced the number of adjusted performance measures used this year.

## GROUP RESULTS – ADJUSTED CONSTANT CURRENCY ANALYSIS

| £ million (unless otherwise indicated) | Full year ended 30 September 2021* | Foreign exchange | Constant currency movement | Full year ended 30 September 2022 | Change | Constant currency change |
|---|---|---|---|---|---|---|
| **Tobacco & NGP net revenue** | | | | | | |
| Europe | 3,551 | (88) | 9 | 3,472 | -2.2% | 0.2% |
| Americas | 2,534 | 181 | 111 | 2,826 | 11.5% | 4.4% |
| Africa, Asia and Australasia | 1,504 | (2) | (7) | 1,495 | -0.6% | **-0.5% |
| Total Group | 7,589 | 91 | 113 | 7,793 | 2.7% | 1.5% |
| **Tobacco & NGP adjusted operating profit** | | | | | | |
| Europe | 1,670 | (22) | (86) | 1,562 | -6.5% | -5.2% |
| Americas | 1,037 | 83 | 59 | 1,179 | 13.8% | 5.8% |
| Africa, Asia and Australasia | 598 | 9 | 93 | 700 | 17.1% | 15.6% |
| Total Group | 3,305 | 70 | 66 | 3,441 | 4.1% | 2.0% |
| **Distribution** | | | | | | |
| Net revenue | 1,069 | (32) | 9 | 1,046 | -2.1% | 0.8% |
| Adjusted operating profit including eliminations | 265 | (8) | (4) | 253 | -4.5% | -1.2% |
| **Group adjusted results** | | | | | | |
| Adjusted operating profit | 3,570 | 62 | 62 | 3,694 | 3.5% | 1.8% |
| Adjusted net finance costs | (417) | 10 | 81 | (326) | -21.9% | -19.6% |
| Adjusted eps (pence) | 246.5 | 6.5 | 12.2 | 265.2 | 7.6% | 4.9% |

* The 2021 net revenue and adjusted operating profit metrics exclude the contribution of the Premium Cigar Division from that financial reporting period following its divestment in October 2020. The Premium Cigar Division contributed £21 million to net revenue and £3 million to adjusted operating profit in 2021.
** Africa, Asia and Australasia performance has been impacted by our exit from Russia; excluding Russia tobacco & NGP net revenue grew 3.9% at constant currency.

### Volumes, bn SE

| | |
|---|---|
| Europe | 121.5 |
| Americas | 21.9 |
| Africa, Asia and Australasia | 77.5 |

### Net revenue (actual FX rate), £m

| | |
|---|---|
| Europe | 3,472 |
| Americas | 2,826 |
| Africa, Asia and Australasia | 1,495 |

### Adjusted operating profit (actual FX rate), £m

| | |
|---|---|
| Europe | 1,562 |
| Americas | 1,179 |
| Africa, Asia and Australasia | 700 |
| Distribution | 253 |

## SALES PERFORMANCE (£M)

### Reported revenue

-0.7%

### Net revenue

+1.5%

- Reported revenue declined -0.7% driven by adverse translation FX from a weaker euro and higher euro exposure than net revenue due to excise duty and Logista.
- Net revenue grew 1.5% at constant currency comprising +1.3% from tobacco and +0.2% from NGP.
- Tobacco volume was down -4.7%, reflecting the exit from Russia and volume declines in Europe as COVID-19 restrictions unwind, partly offset by a strong volume performance in the Americas and the Africa, Asia and Australasia regions.
- Strong aggregate market share growth in our top-five priority markets of +35bps (FY21: -2bps).
- Tobacco price mix rose by 6.0% due to positive pricing and market mix from the Russian market exit. Excluding Russia, price mix was 3.4%, showing a recovery back to historic levels in the second half of the year (5.7%).
- NGP net revenue increased +10.8% at constant currency, led by growth in Europe more than offsetting declines in the USA.
- Translation FX was favourable due to sterling weakening against the dollar but partially offset by strengthening against the euro.

The net revenue of £7,589m for 2021 excludes a £21m contribution from the Premium Cigar Division following its divestment in September 2020.

## OPERATING PROFIT (£M)

### Reported operating profit

-14.7%

### Adjusted operating profit

+1.8%

- Reported Group operating profit of £2,683m declined 14.7%, primarily driven by exit charges related to the Russian asset disposal (£399m) and the non-recurrence of gains on disposal of the Premium Cigar Division (£281m).
- Adjusted Group operating profit increased 1.8% at constant currency driven by tobacco & NGP growth.
- Tobacco adjusted operating profit increased marginally (+0.3%) reflecting increased investment in our strategy and the non-recurrence of US state litigation costs in FY21.
- NGP losses reduced as we re-prioritised investment and exited loss making markets.
- Translation FX reflects sterling weakening against the dollar, partially offset by strengthening against the euro.

The adjusted operating profit figure of £3,570m for 2021 excludes a £3m contribution for the Premium Cigar Division following its divestment in September 2020.

## EARNINGS PER SHARE (PENCE)

### Reported EPS

-44.7%

### Adjusted EPS

+4.9%

- Reported EPS declined 44.7% to 165.9 pence driven by the lower reported operating profit, an increase in tax charge and lower net finance income as we reduced our exposure to the marked to market foreign exchange accounting gains on unhedged financial instruments.
- Adjusted EPS was 265.2 pence, up 4.9% at constant currency due to increased adjusted operating profit, supported by lower adjusted interest costs due to a reduction in net debt as high coupon bonds matured or were repaid early in FY21.

The adjusted earnings per share figure of 246.5p for 2021 excludes a 0.6p contribution from the Premium Cigar Division following its divestment in September 2020.

## CASH FLOW

Cash flows from operating activities were £3,186 million (2021: £2,167 million).

The year-on-year improvement in free cash flow to £2,562 million (2021: £1,524 million) was driven by a lower working capital outflow, as duty payment dates at Logista return to normal following changes to duty payment dates in preceding years, and a lower cash tax payment after a one-off payment in 2021 of £101m for Controlled Foreign Company (CFC) state aid in the UK.

While the net cash inflow of £1,255 million (2021: £1,064 million) improved year-on-year, the improvement was impacted by lower disposal proceeds compared to the prior year which benefited from the sale of the Premium Cigar Division. Disposal proceeds in 2022 were related to the La Romana factory sale, which was finalised in the second half of 2022. Shareholder dividend payments of £1,320 million are marginally higher than last year (2021: £1,305 million) driven by our progressive dividend policy.

Capital expenditure of £177 million was higher than the prior year (2021: £150 million) and is anticipated to increase in 2023 to within an expected range of £300 million to £350 million.

The increased capital expenditure will support projects to drive simplified and efficient operations in line with our strategic plan.

Adjusted operating cash conversion was 102% (2021: 83%) driven by neutral working capital in the year and temporary sales phasing in Logista driving a higher duty payable. Adjusted operating cash conversion in the prior year was impacted by increased duty payments in Logista which were deferred from 2020, leading to a significant working capital outflow.

| £ million (unless otherwise indicated) | 2022 | 2021 |
|---|---|---|
| Cash flow from operating activities | **3,186** | 2,167 |
| Free cash flow | **2,562** | 1,524 |
| Net cash flow | **1,255** | 1,064 |
| | | |
| Adjusted operating profit | **3,694** | 3,573 |
| Cash flow post capital expenditure pre interest and tax | **3,781** | 2,949 |
| Adjusted operating cash conversion | **102%** | 83% |

## RETURN ON INVESTED CAPITAL

Return on invested capital (ROIC) increased by 120 basis points, driven by an increase in net adjusted operating profit and a reduction in annual average capital. Average annual ROIC was 17.7% (2021: 16.5%).

Average annual capital reduced by £0.5 billion, driving an improvement in returns, with the benefit of increased adjusted operating profit.

Our FY22 invested capital has increased compared to the prior year due to beneficial foreign exchange movements in intangible assets.

Despite this increase the average annual invested capital remains lower than 2021, benefiting from the disposal of assets held for sale from the Premium Cigar Division and a reduction in intangible assets in 2021.

| £ million | 2022 | 2021* |
|---|---|---|
| **Reported operating profit** | **2,683** | 3,146 |
| Adjusting items (APM section within supplementary information) | **1,011** | 427 |
| **Adjusted operating profit** | **3,694** | 3,573 |
| Implied tax (at adjusted effective tax rate) | **(827)** | (807) |
| **Net adjusted operating profit after tax** | **2,867** | 2,766 |
| | | |
| Working capital | **(2,823)** | (2,523) |
| Intangible assets | **17,777** | 16,674 |
| Property, plant & equipment | **1,659** | 1,715 |
| Assets/(liabilities) held for disposal | **–** | – |
| **Invested capital** | **16,613** | 15,866 |
| **Average annual invested capital** | **16,240** | 16,741 |
| **Average annual ROIC** | **17.7%** | 16.5% |

* 2021 figures calculated on the same basis as 2022.

## ADJUSTED NET DEBT/EBITDA

Adjusted net debt reduced by £0.6 billion (2021: £1.2 billion) in the year, driven by continued strong cash generation. Adjusted net debt/EBITDA reduced to 2.0x from 2.2x, in line with previous guidance.

Reported net debt reduced by £881 million to £8,492 million (2021: £9,373 million). Excluding accrued interest, lease liabilities and the fair value of derivative financial instruments providing commercial hedges of interest risk, Group adjusted net debt was £8,054 million (2021: £8,615 million).

| £ million | 2022 | 2021 |
|---|---|---|
| Reported net debt | **(8,492)** | (9,373) |
| Accrued interest | **105** | 140 |
| Lease liabilities | **248** | 251 |
| Fair value of interest rate derivatives | **85** | 367 |
| Adjusted net debt | **(8,054)** | (8,615) |

## RECONCILIATION BETWEEN REPORTED AND ADJUSTED PERFORMANCE MEASURES

| £ million unless otherwise indicated | Operating profit 2022 | Operating profit 2021 | Net finance (costs)/income 2022 | Net finance (costs)/income 2021 | Earnings per share (pence) 2022 | Earnings per share (pence) 2021 |
|---|---|---|---|---|---|---|
| **Reported** | **2,683** | 3,146 | **(117)** | 81 | **165.9** | 299.9 |
| Russian and associated markets exit | **399** | – | **–** | – | **42.2** | – |
| Acquisition and disposal costs | **5** | 17 | **–** | – | **0.5** | 1.8 |
| Amortisation & impairment of acquired intangibles | **349** | 450 | **–** | – | **35.4** | 44.3 |
| Excise tax provision | **(9)** | (1) | **–** | – | **(1.0)** | (0.1) |
| Fair value adjustment of loan receivable | **37** | (15) | **–** | – | **3.9** | (1.6) |
| Loss/(profit) on disposal of subsidiaries | **29** | (281) | **–** | – | **2.2** | (29.7) |
| Restructuring costs | **197** | 257 | **–** | – | **15.6** | 19.6 |
| Fair value and exchange movements on derivative financial instruments | **–** | – | **(201)** | (496) | **(1.9)** | (60.7) |
| Post-employment benefits net financing costs | **–** | – | **(8)** | (2) | **(0.8)** | (0.3) |
| Buy out liabilities on Irish Pension Scheme | **4** | – | **–** | – | **0.4** | – |
| Tax on disposal of premium cigar division | **–** | – | **–** | – | **–** | (1.2) |
| Previously unrecognised tax credits | **–** | – | **–** | – | **–** | (25.3) |
| Brand impairment in equity accounted joint venture | **–** | – | **–** | – | **2.5** | – |
| Provision for state aid recoverable | **–** | – | **–** | – | **10.7** | – |
| Uncertain tax positions | **–** | – | **–** | – | **(6.7)** | – |
| Deferred tax on unremitted earnings | **–** | – | **–** | – | **(2.7)** | – |
| Tax on unrecognised losses | **–** | – | **–** | – | **0.8** | 5.0 |
| Adjustments above attributable to non-controlling interests | **–** | – | **–** | – | **(1.8)** | (4.6) |
| **Adjusted** | **3,694** | 3,573 | **(326)** | (417) | **265.2** | 247.1 |

## ADJUSTING ITEMS

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

The Group announced in April it had completed its exit and sale of its Russian business and associated markets with net charges totalling £399 million. These are outlined below:

- An impairment charge against the Russian assets of £166 million was recognised as at 31 March 2022 when the assets were classified as an asset held for sale.
- A further net loss of £198 million arose on completion including recycled foreign exchange losses of £190 million.
- The planned exit from a limited number of associated markets has resulted in the recognition of asset impairment provisions and exit costs currently estimated at £35 million.

In addition, the sale of the Russian business has triggered an impairment to the intangible asset for the Jadé brand which is sold in Russia through the venture between Global Horizons and China Tobacco. This has led to a charge to the Group of £23.5 million and impacts adjusted EPS by 2.5 pence.

The financial asset investments (Auxly and Oxford Cannabinoid Technologies) were revalued as at 30 September 2022, with a £37 million loss recorded due to credit risk provision adjustments and marking the value of equity investments to market prices.

The loss on disposal of subsidiaries totalled £29 million and comprised:

- The sale of the La Romana factory in the Dominican Republic which completed in August 2022. We received a sales consideration of £46 million and recognised a loss of £13 million on completion.
- The Group's subsidiary Logista sold its interest in Supergroup S.A.S for a consideration of £nil and recognised a loss on disposal of £16 million.

Restructuring costs of £197 million relating to the 2021 Strategic Review Programme were recognised in the year as shown in the table overleaf. Further details on our restructuring programmes are given in the restructuring section below.

The 2022 charges in relation to restructuring programmes are shown below.

| £m | 2022 Income Statement | 2022 Cash |
|---|---|---|
| Cost Optimisation Programme I | – | 11 |
| Cost Optimisation Programme II | – | 19 |
| 2021 Strategic Review Programme | **197** | 56 |
| Other | – | 5 |
| Total | **197** | 91 |

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

## RESTRUCTURING CHARGE & CASH SPEND

| £m | Income Statement Charges | | Cash Costs | | Savings |
|---|---|---|---|---|---|
| | Cumulative to date | Anticipated Total | Cumulative to date | Anticipated Total | Annualised Savings |
| Cost Optimisation Programme I (2013) | 945 | 945 | 582 | 634 | 305 |
| Cost Optimisation Programme II (2018) | 848 | 848 | 562 | 650 | 320 |
| 2021 Strategic Review Programme | 423 | 423 | 104 | 274 | 150 |

## RESTRUCTURING

As previously confirmed and approved by the Audit Committee, only costs related to the operating model changes required as part of the strategic review announced in January 2021, together with its implementation costs and associated non-cash charges, are eligible for classification as adjusted costs in the income statement in FY22.

Therefore, there have been no further restructuring charges made during the period in respect of any other previously approved restructuring programmes (COP I, COP II). Any further charges in respect of any restructuring programmes will not be adjusted.

The programme announced during the course of 2021, which was an output from the strategic review, was a restructuring programme aiming to reorganise and simplify the business, unlocking efficiency savings and enabling increased investment in our core capabilities such as sales and marketing to support the five-year strategic plan. At that time, total restructuring costs in respect of the programme were anticipated to be in the range of £375 million to £425 million.

Since the strategy announcement, we developed detailed plans across a number of different initiatives and are now deploying a new operating model that will support the strategic delivery.

Following our detailed work:

- we expect cash costs to be £274 million, that will extend into 2023 and beyond, and the associated restructuring charges have been fully provided for across both FY21 (£153 million) and FY22 (£121 million).
- associated non-cash restructuring charges incurred in FY22 totalled £76 million, bringing the total non-cash charges to £149 million.

Hence the overall restructuring charge across both FY21 and FY22 periods, in respect of both cash and non-cash items is £423 million, which is at the higher end of our initial guidance of £375 million to £425 million. We are currently forecasting that the programme will deliver annualised savings at the higher end of the range of our initial guidance of £100 million to £150 million.

Cash spend for all three restructuring programmes is expected to continue into FY23 and beyond.

### Finance costs

Adjusted net finance costs were lower at £326 million (2021: £417 million), reflecting lower adjusted net debt balances during the year. Reported net finance cost was £117 million (2021: income of £81 million), incorporating the impact of net fair value and foreign exchange gains on financial instruments of £201 million (2021: gains of £496 million) and post-employment benefits net financing income of £8 million (2021: income of £2 million). The gains on financial instruments are primarily due to fair value gains of £270 million resulting from positive valuation movements of the Group's interest rate derivatives reflecting increasing market interest rate expectations in the year.

Our all-in cost of debt decreased to 3.5% (2021: 4.0%) due to the early repayment of a bond in FY21 and associated charges taken in that year combined with the natural maturity of higher cost debt during 2022, partially offset by rising interest rates.

Our interest cover increased to 12.1x (2021: 9.2x) reflecting the lower adjusted finance costs.

Given the rising interest environment, we expect upward pressure on finance cost going forward although we have hedging in place for 85% of our expected debt in FY23.

### Taxation

Our adjusted effective tax rate is 22.4% (2021: 22.6%) and the reported effective tax rate is 34.7% (2021: 10.2%). The slight reduction in the adjusted effective tax rate reflects both a significantly lower year-on-year provision build for uncertain tax positions arising from the settlement of several tax audits, largely offset by a greater proportion of the Group's profits being earned in jurisdictions with higher tax rates. The adjusted tax

rate is lower than the reported rate due to no tax relief arising on the Russian market exit costs and limited tax relief arising on foreign exchange losses that arise on consolidation, and the recognition of a full provision against the previously recognised receivable for state aid tax.

We expect our adjusted effective tax rate for the year ended 30 September 2023 to be around 22%.

The effective tax rate is sensitive to the geographic mix of profits, reflecting a combination of higher rates in certain markets such as the USA and lower rates in other markets such as the UK.

The rate is also sensitive to future legislative changes affecting international businesses such as changes arising from the OECD's (Organisation for Economic Co-operation and Development) Base Erosion and Profits Shifting (BEPS) work. Whilst we seek to mitigate the impact of these changes, we anticipate there will be further upward pressure on the adjusted and reported tax rate in the medium term.

Our Group tax strategy is publicly available and can be found in the Governance section of our corporate website.

### Exchange rates

Foreign exchange had a positive impact on Group adjusted operating profit and earnings per share at average exchange rates (1.7% and 2.4%, respectively). Sterling weakened against the US dollar (6.4%) and strengthened against the euro (3.1%). Other major currencies remained broadly flat compared to the prior year.

### Dividend payments

The Group paid two interim dividends of 21.27 pence per share in June and September 2022.

The Board has approved a further interim dividend of 49.31 pence per share and will propose a final dividend of 49.32 pence per share bringing the total dividend for the year to 141.17 pence. This represents a 1.5% increase to the amount of 139.08 pence per share paid in the prior year and is in line with the Group's progressive dividend policy.

The annual dividend represents a payout ratio of 53.2% with respect to basic earnings per share.

The third interim dividend will be paid on 30 December 2022 to shareholders registered on 25 November 2022. Subject to AGM approval, the proposed final dividend will be paid on 31 March 2023 to shareholders registered on 17 February 2023.

### Funding/Liquidity

During the year we repaid one bond of £1 billion and made a partial repayment of US$ 646 million from our February 2023 US$ 1 billion bond. We issued a $1 billion bond in the year with a coupon of 6.125%, maturing in July 2027. The denomination of our closing adjusted net debt was split approximately 80% euro and 20% US dollar. As at 30 September 2022, the Group had committed financing in place of around £13.0 billion, which comprised 24% bank facilities and 76% raised from capital markets. During the year the maturity date of €3,316 million of the Group's existing syndicated multicurrency facility was extended to 30 September 2025, with the exception of one tranche of €184 million, which remains at the 31 March 2025 maturity date.

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

**Lukas Paravicini**
Chief Financial Officer

# MANAGING RISK

The principal risks faced by the Group and Imperial's risk management approach are described in the following pages.

Risks represent the various potential outcomes that are managed whilst implementing the Group's strategy. Imperial defines a risk as anything that could disrupt the achievement of the Group's strategy and objectives.

In developing the Group's strategy, the Board and management reviewed the risk landscape (current and emerging) and related profiling, with risk mitigations and impacts assessed.

## RISK ASSESSMENT PRINCIPLES

- Risk assessments are aligned with the business planning cycle and strategic objectives, focusing not only on the identification and assessment of risks, but most importantly on the effectiveness of the mitigations in place
- Imperial adopts a dynamic approach which facilitates and collates views from functional risk owners and a broad spectrum of other relevant stakeholders, providing end-to-end insights from a wide collection of second line experts – enabling a richer, more balanced perspective on current and emerging risks
- Current and emerging risks are considered on an ongoing basis across the business, with a general three-year horizon (though longer where applicable, e.g. climate risk). This horizon ensures appropriate focus and includes consideration of changes in the causes of existing risks (e.g. specific proposed regulatory change) ensuring timely evaluation of the effectiveness of current and future mitigations
- Specific risk topics are presented to the Board, Audit Committee, and ELT during the year. These discussions provide further detail from first and second line management on their risk management responsibilities

Many of these risks are external and cannot be fully mitigated, and whilst the Group continues to monitor its risk landscape there can be no guarantee that additional risks will not arise, or that other known risks not mentioned increase in materiality.

## RISK APPETITE

The Board is responsible for setting the Group's risk appetite and has completed its annual exercise to ensure this is aligned to, and supports, the new Group strategy. The resultant risk management approach supports the achievement of objectives and the Board's wider responsibility for risk management through clear communication of the expected outcomes of key controls and related monitoring.

## RISK LANDSCAPE

The Group operates in highly competitive multinational markets and faces general commercial risks associated with a large FMCG business.

Imperial constantly assesses and evaluates the risks posed by the changing environments in which the Group operates, whether geopolitical, socioeconomic or technological. The consideration of potential impacts and most likely causes ensures a timely, measured and appropriate response.

The Group, along with all other businesses, has continued to be impacted by the pressures which COVID-19 has placed on global supply chains. Further to this the Russian invasion of Ukraine required the Group to act to prioritise the safety of its people, and to manage the impacts on the business. The Group is impacted by the resultant increase in commodity and energy prices, notably within its European manufacturing sites.

## RISK MANAGEMENT FRAMEWORK

The framework is designed to ensure accountability for the identification, assessment and mitigation of risks throughout the business, supported by appropriate capabilities.

The success of the risk management approach relies upon the effectiveness of the control frameworks in place to manage risks and seize opportunities that arise. Imperial's approach to governance, risk management and internal control follows the "three lines model", which enables the business to achieve its strategic objectives whilst remaining aligned to the Board's risk appetite.

As a Group we face a number of current and emerging issues which we treat as causes of current risks rather than evaluating them as risks in themselves. By adopting this approach we ensure consideration of impacts and required mitigations across the business, and increase the effectiveness and accountability for assessments on a "bottom-up" basis, enabling local and Group initiatives to be developed to optimise our responses.

### Climate risk

The impacts of climate risk on the business have been evaluated as part of both Group and local (functional) risk assessments.

Key impacts exist within our manufacturing footprint and wider supply chain, with short- and long-term consideration of possible vulnerabilities and required mitigations to ensure resilience.

### Inflation

The impact of inflationary pressures on both the business and consumers has been assessed as part of risk assessments.

This creates a more dynamic feedback between "bottom-up", "top-down" and cross-functional perspectives, ensuring the broadest consideration of impacts and mitigations.

### Geopolitical risk

The identification and effective mitigation of geopolitical risks has become an increasingly important factor within the Group's operational continuity planning for our internal resilience and the resilience of our wider supply chain, key customers, and service providers.

This consistent and complete assessment better informs Group actions.

| WHO is involved? | | WHAT activities are completed? Assessment and evaluation of risks | WHEN are they completed? | HOW do we confirm risks are managed? |
|---|---|---|---|---|
| "Bottom-up" | **First Line** | • Local ownership and accountability for completion and continued update of risk register<br>• Local Leadership Team input to review and formally agree risk assessment outcomes<br>• Approach includes requirement to assess effectiveness of related risk mitigations on an ongoing basis<br>• Completion of key control compliance self-assessment across the business – Group Controls Matrix (GCM) communicates key requirements and required testing | Ongoing throughout year but with minimum six-monthly formal update<br>Monthly GCM compliance self assessment completion | • Leadership accountability for risk assessment and mitigation effectiveness<br>• Regional leadership team oversight and input<br>• Dedicated operational control positions responsible for facilitating operational risk and compliance activities<br>• Management certification of compliance with Group policies and Code of Conduct on six-monthly basis<br>• Internal Audit and other independent assurance reviews performed across the business |
| | **Second Line** | • Functional risk registers evaluate both the risks subject matter experts are employed to manage, and the risks to achieving objectives in line with Board risk appetite<br>• Reviewed and agreed by functional leadership teams<br>• Formal completion of legal and regulatory certifications (e.g. ESG-related, TCFD, Human Rights, Group Science regulatory certifications) | Ongoing throughout year but with minimum six-monthly formal update | • Define and implement policy and risk management activities aligned to risk appetite<br>• Provide support to business in design and implementation of local mitigations<br>• Monitor effectiveness of mitigations through KRIs/KPIs and assurance activities<br>• Review results of GCM self-assessment and identify common themes<br>• Review results of assurance activities to ensure effective closure of observations raised |
| "Top-down" | **Risk Committee** | • Provides "top-down" insights to risk assessment process<br>• Considers emerging risks and themes identified in risk assessment process<br>• Reviews results of GCM internal control self-assessments<br>• Provides input into development of risk management activities | Minimum three times per year | • Oversee risk management approach and reporting<br>• Review results of assurance activities to ensure effective closure of any observations raised |
| | **ELT** | • High-impact risks identified in "bottom-up" assessments are consolidated for review by ELT<br>• Considers emerging risks and themes identified in risk assessment process | Quarterly update | • Oversee risk management approach and reporting<br>• Review results of assurance activities to ensure effective closure of any observations raised |
| | **Audit Committee** | • Oversight of the Group's internal control systems, risk management process and framework<br>• Obtain and review scope, quality and results of assurance provided by internal and external audit | Update at each AC meeting, including risk deep dives with first- and second-line risk owners | • Oversee risk management approach and reporting<br>• Review results of assurance activities |
| | **Board** | • Provides operational and strategic risk perspectives, ensuring these are considered in Group strategy<br>• Sets the Group's risk appetite<br>• Considers emerging risks and themes identified in risk assessment process | Twice per year: formal risk assessment review | • Oversee risk management approach and reporting<br>• Review results of risk assessment |

The mitigation and management of identified risks is vital to the success of the Group. The Group's risk management and internal control framework and related reporting are further discussed in the Audit Committee report on page 119.

The following section highlights the principal risks the Group faces and identifies the mitigations that are in place to manage them, with all risks reported on a mitigated basis.

Not all of these principal risks are within Imperial's direct control, and the list cannot be considered to be exhaustive, as other risks and uncertainties may emerge in a changing business environment.

An illustration of the primary impact each risk might have on relevant strategy elements and the change in profile of the risk compared to the previous year is included.

Changes have been made in the presentation of the principal risks. The risks reported are those currently considered by the Board to have the most likely impact on achievement of the Group's objectives, with the exception of the People risk, which is included to reflect the importance of our people in delivery of the Group's strategy.

| Principal risk | Change in year |
|---|---|
| **PRICING, EXCISE OR OTHER PRODUCT TAX OUTCOMES NOT IN LINE WITH BUSINESS PLAN ASSUMPTIONS OR EXPECTATIONS**<br>Risk profile: ↑<br>Strategic impact:<br>Driving value from our broader portfolio<br>Failure to achieve planned pricing strategy could impact achievement of objectives and targets. Failure to identify or manage increases, or proposed increases, in excise or other product-related taxes, or changes in tax structures, could impact achievement of objectives | • Pricing pressures resulting from inflationary impact on consumer spend, triggered by unprecedented increases in prices for fuel, food and other commodities<br>• Additional expertise employed within the Revenue Growth Management function, and additional tools developed to better model and predict impacts of excise, inflation, and other consumer pressures<br>• Continued development of EU Excise Directive |
| **FAILURE TO MANAGE THE IMPACTS OF PRODUCT REGULATORY CHANGE**<br>Risk profile: →<br>Strategic impact:<br>Driving value from our broader portfolio<br>Regulatory change aimed at further de-normalising the consumption of tobacco and nicotine products adversely impacts the Group's products, markets, manufacturing processes, customers, and/or consumers | • FDA formally proposed regulatory change in the US, impacting the use of menthol and other characterising flavours. This US Federal ban is most likely to take longer than the Group's three-year risk horizon to come into effect, however, legislation at state or county level could be implemented in advance of this<br>• Regulatory change in New Zealand creates an environment which eventually bans the sale of tobacco through increasing the age at which tobacco can be purchased year on year, over a 50-year period<br>• Roll-out of Track-and-Trace requirements in product supply chain continues across Africa<br>• Increasing maturity and complexity within NGP categories as regulation develops with market growth, including proposals for changes in ability to sell flavoured product.<br>• Wider alignment between Tobacco and NGP categories could arise under EUTPD3 and, in general, the developing EU regulatory landscape |

In the year the previously reported Organisational change, and Availability of liquidity risks have reduced relative to our wider risk landscape. These have been replaced in the following section by Failure to identify or respond to changes in consumer behaviour and/or market environment and Failure to manage direct/indirect tax positions/reporting.

| Impact | Mitigation | Opportunity |
|---|---|---|
| • In markets where consumers are increasingly price-conscious the ability to achieve planned price increases may be impacted, resulting in reduced profitability as the Group protects market share<br>• Pricing pressures may result from significant pressures on consumer disposable income. Fuel, food and commodity prices have increased at significant rates in priority markets, reducing consumer purchasing power. Additionally, increases in taxation further increase product price potentially impacting affordability. This could result in down-trading to lower price products/categories, reduced consumption, cessation of smoking, or an increase in the attractiveness of illicit product, impacting sales volumes, revenues, profitability and market size<br>• Counterfeit and illicit trade thrive in high-excise environments, reducing the size of the legitimate tobacco market, increasing risks to consumers from non-compliant product, and financing organised crime<br>• Inferior, unregulated counterfeit product could result in damage to brands | • Subject matter experts assess global excise risks, and model price elasticity to ensure the business plan and strategy are developed and aligned to consumer insights<br>• The Group's Revenue Growth Management function is responsible for the identification and management of strategic commercial opportunities arising from excise change<br>• Engagement with authorities providing informed input and evidence about the unintended consequences of disproportionate changes in product taxation, supported by the Group's Regulatory and Anti-Illicit Trade teams<br>• Robust internal policy and procedures ensure compliance within the supply chain, maintaining strong standards and controls for the business and first-line customers to prevent diversion of products<br>• Working alongside and partnering with governments and law enforcement agencies around the world to prevent the illicit supply of tobacco products | • The development of the Group strategy includes analysis of planned and potential changes in product taxation to identify and ensure investment opportunities across our range of products<br>• The Group product portfolio is resilient to potential impacts from changes in consumer behaviour, with products at various price points<br>• Tailored product portfolio offerings at a local level, within and across categories, allow for any relative commercial advantage from excise mechanisms to be realised |
| • Product regulatory change can restrict product specification (e.g., menthol or similar flavour ban), consumer interaction, and product supply, and place restrictions on consumers' ability to enjoy the product, potentially impacting sales volumes and market size<br>• Compliance with increasingly complex regulatory requirements increases the risk of both additional cost to the Group and inadvertent non-compliance, which could result in investigation, regulatory censure, financial penalty and reputational damage<br>• Where interpretation of regulation is required, judgements made can lead to dispute or investigation by regulators and result in possible related financial costs or reputational damage even where no fault is proven | • Engagement with authorities to provide informed input and evidence of the unintended consequences of disproportionate changes in product regulation, supported by the Group's Regulatory and Scientific Affairs teams<br>• Subject matter experts employed to assess the impacts of proposed regulatory change and Group-wide impacts<br>• Project teams in place to manage the impacts of regulatory change, ensuring required compliance is achieved and strategic opportunities identified<br>• Group policies, guidance and processes aligned to changes in legislation and requirements<br>• Legal action can be taken to defend against or prevent regulatory change where this impacts the Group's brands or local legal freedoms | • While stringent regulation proves a burden on all firms, the burden is less on businesses that operate from an existing high baseline of compliance and responsibility<br>• Regulation can be of benefit to consumers and to responsible market players through preventing less responsible companies from operating freely within the marketplace<br>• Global regulators are increasingly moving towards a policy of tobacco harm reduction. Such policies accept the reduced risk that non-combustible nicotine products offer adult smokers in comparison to cigarettes and other traditional, combustible products |

| Principal risk | Change in year |
|---|---|
| **PRODUCT SUPPLY FAILS TO MEET MARKET DEMANDS (STOCK ISSUES IN MARKET)**<br>Risk profile: ↑<br>Strategic impact:<br>Simplified and efficient operations<br><br>Failure to ensure timely supply of products demanded by markets which meet quality, regulatory and cost requirements. Availability issues could result in loss of sales and could be caused by production, planning or logistical issues, or failure to be able to produce/develop formats aligned to consumer needs | • The Russian invasion of Ukraine impacted the Group's supply chain strategy. Loss of the Kyiv manufacturing site for a prolonged period in the year resulted in the need to switch that production capacity to alternative sites<br>• Significant global cost inflation, notably in non-tobacco materials and energy, has impacted, and will continue to impact, the cost of goods sold<br>• The potential for energy scarcity across Europe resulting from disruption to, or availability of, gas supplies could impact EU manufacturers<br>• Significant pressures on the Group's logistics supply chain have continued as a result of the impact of COVID-19 on shipping, along with continued disruption from regional lockdowns in China<br>• Continuing frequency of adverse weather globally due to climate change potentially impacting supply chains, notably cigar operations in our Caribbean factories and Philippines<br>• Track-and-Trace regulation continues to roll out across markets, increasing compliance requirements |
| **MAJOR INCIDENT RESULTING FROM CYBER OR SIMILAR TECHNOLOGY RISK**<br>Risk profile: →<br>Strategic impact:<br>Simplified and efficient operations<br><br>Cyber-attack or other technology incident results in a major system outage or denial of service. The criticality of Group systems, notably those which are Track-and-Trace related, has significantly increased, with key reliance on system availability both internally and through the supply chain | • External environment highlights increasing risk of corporate cyber-attacks including use of "insider" resource to carry them out, notably ransomware<br>• Increasing risk to all businesses of attack through extended supply chain where one company is breached and others to which it has connections are then also impacted. |
| **FAILURE TO IDENTIFY OR RESPOND TO CHANGES IN CONSUMER BEHAVIOUR AND/OR MARKET ENVIRONMENT**<br>Risk profile: ↑<br>Strategic impact:<br>Focusing on our priority markets<br><br>Failure to obtain or effectively respond to commercial insights and learnings, resulting in loss of market share or inability to capitalise on commercial opportunities | • Increased economic pressure on consumers due to inflationary pressures and economic uncertainty across our market footprint<br>• Growth in illicit trade due to widening gap between duty-paid and non-duty-paid prices as a result of excise impacts, notably in Europe and Australia where excise levels are very high<br>• Further development of consumer insights strategy, including investment in capabilities and tools |

| Impact | Mitigation | Opportunity |
|---|---|---|
| • Loss of key manufacturing site or capacity could impact the Group's ability to meet short-term production demands<br>• Failure to supply markets could result in loss of short-term sales volume, with potential loss of consumer loyalty possibly impacting longer-term volumes<br>• Failure to manage cost inflation could result in reduced margin and profitability<br>• Severe weather episodes could impact raw material supply, manufacturing sites and warehousing, potentially affecting or increasing the cost of short-term supply to markets<br>• A lack of availability of raw materials could impact short-term supply to markets<br>• Product quality issues could impact customer satisfaction, potentially damaging brand equity and future sales<br>• Key ESG-related risks exist in raw material and component supply chains. Failure to manage these risks appropriately could bring litigation with financial and reputational damage to the Group | • Robust demand planning process and supply chain management aligned to changing market environment<br>• Material stocks (leaf and non-tobacco) maintained in line with assessed supply continuity risks, and aligned to sales forecast requirements<br>• Production capacity planning includes agreed continuity measures in the event of machine failure or site issue<br>• Supplier agreements, standards, and practices include requirement to comply with Group policies and Code of Conduct<br>• Ongoing supplier reviews include quality, ESG, and continuity-related scope<br>• Learnings from Ukraine and COVID-19 experience to date incorporated into strategic and operational processes and plans<br>• Group has a firm commitment to act in accordance with legal requirements and the principles of being a responsible manufacturer | • Operations continue to supply quality, compliant products whilst improving agility and scalability, catering for demand shifts and opportunities to contain underlying costs whilst maintaining standards and actions of a responsible manufacturer |
| • Loss of critical systems could impact product supply to markets or retailers<br>• Failure to protect personal data could result in regulatory breach and related censure, financial penalty and reputational damage<br>• Cyber breach could result in loss of sensitive corporate data, impacting achievement of strategy, reputational damage, significant cost to the Group or lost competitive advantage | • Cyber risk assessment completed and actions implemented to further protect business<br>• Vulnerability scanning in place to ensure ongoing threat protection<br>• External penetration testing completed on an ongoing basis<br>• Workstation security and cloud services implemented<br>• Crisis management scenario planning and response activities in place and tested<br>• Additional specialist capabilities recruited internally to continually improve approach | |
| • Failure to respond to changes in consumer trends could result in the Group's portfolio not being aligned to consumer needs or demands. This could make the Group's products less attractive to consumers, resulting in reduced sales<br>• Failure to identify changes in consumer trends could result in lost opportunities, notably in our NGP categories where innovations are more prevalent<br>• Economic pressure on consumers could result in reduced spend on tobacco products and alternatives, reducing market size<br>• Increases in illicit trade impact the size of the legitimate market, impacting sales volumes | • Development and formalisation of insights approach, driving greater consistency<br>• Increasing capabilities and implementation of systems and tools<br>• Consumer Insights for all categories report to central team – reducing disparity in approach and outcomes<br>• Data sources controlled to ensure consistency and robustness of information and insights<br>• Market impacts analysed as part of market size calculations<br>• Pack collection reporting completed to provide trend analysis of illicit impacts<br>• Excise and price monitoring provides insights into possible changes in illicit impacts through widening disparity between the price of legitimate and illicit product<br>• Industry trade groups and joint operations with enforcement agencies | • Provides opportunity to align Group portfolio and product developments, to consumer trends and changing market environments<br>• Robust data analysis increases confidence in achievability of expected outcomes and optimisation of investment choices<br>• Monitoring of illicit impacts, and product flows provides opportunity for engagement with, and support to, regulators to reduce the illegal trade in tobacco products |

| Principal risk | Change in year |
|---|---|
| **INABILITY TO DEVELOP, EXECUTE AND COMMUNICATE AN EFFECTIVE ESG STRATEGY IN LINE WITH EXPECTATIONS OF RELEVANT STAKEHOLDERS**<br>Risk profile: ↓<br>Strategic impact:<br>Performance-based culture and capabilities<br>Failure to align the development, execution and communication of the Group's ESG strategy to external expectations. The pace of change in external requirements and expectations remains significant, with greater focus on integrity and assurance of reporting, and comparison cross-industry and between sector peers | • Continued focus on ESG-related matters from investors and external stakeholders<br>• Increasing reporting requirements exist, notably for climate and environmental-related risks, with the Group committed to actions to reduce its impact on the environment (e.g. TCFD reporting)<br>• Recruitment of specialist human rights capabilities to further improve the Group's approach, and ensure proactive readiness for changes in regulatory requirements<br>• As with all multinationals, the Group faces increasing climatic impacts across its global footprint<br>• Investments in the NGP business to offer adult smokers potentially reduced harm products continue and have been communicated and included within the Group's ESG agenda |
| **FAILURE TO DEVELOP COMMERCIALLY SUSTAINABLE NGP CATEGORIES**<br>Risk profile: ↓<br>Strategic impact:<br>Building a targeted NGP business<br>Failure to develop a portfolio of commercially sustainable, science-based, reduced harm products, that meet consumer needs, could impact the Group's ability to seize market opportunities and deliver its ESG agenda. | • Successful completion of Pulze heated tobacco pilot launches and development of accelerated launch strategy<br>• Continued focus on development of the heated tobacco portfolio and product offering<br>• Successful launch of updated vape product in pilot market<br>• Continued competitor activity in the NGP market with growth in category size through product development and marketing initiatives<br>• Failure to achieve PMTA approval in US impacted sale of myblu product; this is currently being appealed |
| **PRODUCT PORTFOLIO AND/OR CONSUMER INTERACTION APPROACH NOT ALIGNED TO CONSUMER PREFERENCES**<br>Risk profile: →<br>Strategic impact:<br>Consumer at the centre of the business<br>Product portfolio not aligned to consumer needs or demands, and/or product development not sufficiently agile to respond to changes in preferences or market structure and competitor offerings. Brand strength is not sufficient to attract or retain customers. | • Continued emergence and growth of new low-price tiers across many markets<br>• Continuation of down-trading trend in which consumers become increasingly value-driven due to inflationary pressures on disposable income |

| Impact | Mitigation | Opportunity |
|---|---|---|
| • Failure to meet expectations, or to ensure at least parity with industry peers, may impact the Group's reputation as a sustainable business and adversely affect stakeholder sentiment<br>• Failure to comply with key ESG-related regulation, including environmental and human rights legislation, would result in a material impact to the Group, including, but not limited to, financial penalties<br>• Reputational damage may result from allegations, even where no wrongdoing has occurred<br>• Employee engagement or attractiveness of the Group as an employer may be adversely affected as a result of any perception that the Group is acting in an inappropriate manner | • ESG strategy, agenda and communications, including ongoing development and materiality assessment, aligned to strategic goals and targets<br>• ESG Committee with executive representation in place to provide oversight<br>• Investor and stakeholder presentations ensure alignment with expectations and transparency on progress of Group actions<br>• TCFD disclosures and related actions facilitate robust reporting and control frameworks<br>• Responsibility and accountability for identification and mitigation of ESG-related risks understood and continues to be embedded across the business<br>• Policy, training, guidance and effective governance provided by both internal and external subject matter experts | • Positive ESG strategies and communications can increase the attractiveness of the organisation to new joiners, and increase the engagement of existing employees<br>• Sustainability is a growing factor in customer and consumer choices across FMCG sectors<br>• Sustainability initiatives can reduce long-term financial costs through greater efficiency and reduced waste<br>• Investor and wider stakeholder sentiment is more positive toward companies with successful and proven ESG strategies and initiatives |
| • Failure to accurately predict or identify current and emerging consumer trends could result in lost opportunities, and lower volumes should products have reduced relevance to consumers<br>• Failure to align NGP portfolio to consumer needs and expectations could result in failure to achieve NGP ambition<br>• Failure to develop NGP categories could impact achievement of key ESG priorities | • Pilot market approach implemented to ensure feedback and learnings captured and responded to in development and execution of heated tobacco strategy<br>• Dynamic consumer and market analysis integral to product development and go-to-market model<br>• Development of consumer centric products bringing alive the Group's agile "fast-follower" strategy<br>• Consolidated NGP category management approach enabling holistic view of opportunities and informed investment strategy | • Improved ability to meet consumer needs and robust consumer validation are key drivers of commercial success<br>• The Group's experience in combustibles and NGP provides it with a strong base to meet the needs of the wider changing nicotine market dynamic |
| • If the Group's product portfolio fails to meet consumer preferences, then reduced demand will result in lower sales volumes and reduced brand equity<br>• Failure to ensure effective implementation of market or retail initiatives could result in lost opportunities, wasted investments, and potential loss of share<br>• Failure to act upon consumer insights could prevent opportunities from being seized and impact growth<br>• Failure to identify intellectual property (IP) constraints in the innovation of new products could impact development and/or launch, limiting the ability to respond to competitor offerings | • Global Consumer Office in place with accountability for product/brand strategy and initiatives<br>• Brand initiatives and opportunities continually assessed, and developments completed<br>• Consumer panel approach in place to provide robust and independent feedback processes<br>• Brand monitoring, including equity tracking<br>• Innovation processes designed to develop consumer products based upon robust analysis, testing and scientific support, with cross-functional expertise utilised in approach<br>• IP risks managed by subject matter experts within the Group and external legal support | • Facilitates the development of products and/or relevant route to market and pricing strategies that meet and drive consumer demand<br>• Speed and quality of innovation enables the drumbeat of consumer activation that ensures both brand relevance and continued brand loyalty<br>• Management of "local hero" brands in markets offers ability to realise local opportunities and strengthen consumer loyalties |

| Principal risk | Change in year |
|---|---|
| **FAILURE TO APPROPRIATELY MANAGE LITIGATION AND INVESTIGATIONS RESULTS IN ADVERSE JUDGEMENTS AND/OR RELATED COSTS**<br>Risk profile: →<br>Strategic impact:<br>Simplified and efficient operations<br>As with other corporates, litigation and other claims are pending against the Group. The interpretation of the law and the related judgements made in relation to these laws can lead to dispute or investigation and possible financial costs or reputational damage | • Consolidation of Legal, Corporate Affairs, and Governance and Security functions facilitates consistent approach across key engagement activities<br>• Recruitment of a new Chief Legal and Corporate Affairs Officer as well as a dedicated Human Rights Manager |
| **FAILURE TO MANAGE DIRECT/INDIRECT TAX POSITIONS/REPORTING**<br>Risk profile: →<br>Strategic impact:<br>Focusing on our priority markets<br>Risk of changing tax legislation, or interpretation thereof, resulting in higher effective tax rate, tax disputes and related financial loss | • G7 proposal to enforce minimum levels of tax payable in the country in which profits are generated. This is intended to protect developing nations and potentially reduces effectiveness of current tax planning strategies<br>• Increased regulatory enforcement across major markets<br>• Uncertain Tax Positions (UTP's) have decreased as we have concluded a number of tax audits |
| **PEOPLE AND ORGANISATION**<br>Risk profile: →<br>Strategic impact:<br>Performance-based culture and capabilities<br>Inability to attract, retain and develop required capabilities to achieve strategic objectives and/or provide a safe, healthy working environment | • The Russian invasion of Ukraine has and continues to have an impact on the welfare of our Ukraine based employees and their families, with both Group and employee-led initiatives having been delivered<br>• We have been able to continue to attract skilled and experienced candidates into senior and key roles in an increasingly supply-constrained job market |

| Impact | Mitigation | Opportunity |
|---|---|---|
| • Failure to comply with regulations could result in investigation and the enforcement of financial penalties or regulatory censure<br>• Investigation or allegations of wrongdoing can result in significant management time being required, potentially reducing focus on other operational matters<br>• If any claim against the Group was to be successful, it might result in a significant liability for damages and could lead to further claims<br>• Regardless of the outcome, the costs of defending such claims can be substantial and may not be fully recoverable<br>• A successful claim against a competitor could result in an increased likelihood of similar claims against the Group<br>• The reputational damage arising from investigations or allegations of non-compliance could have a greater impact with external stakeholders than the penalties or actions related to the matter itself | • Internal and external lawyers employed, specialising in the defence of product liability claims and other litigation. To date, no tobacco litigation claim brought against the Group has been successful and/or resulted in the recovery of damages or settlement monies<br>• Advice is provided to mitigate the causes of litigation, along with guidance on defence strategies to direct and manage litigation risk and monitor potential claims around the Group<br>• The Group's Code of Conduct and core behaviours articulate the way employees are expected to act, with compliance certified by management across the business<br>• The Group's policies and standards mandate that employees must comply with legislation relevant to both a UK listed company and local law<br>• In the event of an investigation (which may or may not result in actions), the Group co-operates fully with the relevant authority and will continue to do so | |
| • Failure to comply with regulations could result in investigation and the enforcement of financial penalties or regulatory censure<br>• Investigation or allegations of wrongdoing can result in significant management time being required, potentially reducing focus on other operational matters<br>• The reputational damage arising from investigations or allegations of non-compliance could have a greater impact with external stakeholders than the penalties or actions related to the matter itself | • Tax control framework in place and subject to update and development<br>• Subject matter experts employed to develop processes and manage issues arising<br>• Local tax managers in position in key markets<br>• Clear communication of delegated authorities for tax planning purposes<br>• Key risk areas identified including transfer pricing<br>• Matters-to-be-Reported framework in place to best ensure appropriate oversight of issues arising | • Optimisation of Group tax liabilities in line with Group risk appetite, supporting compliance with local regulations |
| • Organisational culture and mindset fail to facilitate consumer focus and the requirements of a business operating in new and fast-changing categories<br>• Failure to achieve operational or strategic objectives because of a misalignment of skills and capabilities<br>• Failure to ensure safe working practices, appropriate environment and culture, and the required personal support to ensure the safety and well-being of employees and others working with the Group<br>• Loss of life or serious injury/illness to employees or other individuals working with/for Imperial Brands<br>• Financial penalty, censure or prosecution for breach of regulations<br>• Interruption of Group operations (notably manufacturing) resulting from significant incident, failure to comply with regulations, or failure to manage employee relations | • Group "Connections" programme rolled out across our global footprint<br>• Group-wide diversity, and inclusion focus including survey and resultant action plans<br>• Diversity, Equity and Inclusion working groups in place to facilitate cultural and corporate change<br>• Capability requirements evaluated on an ongoing basis, with required actions developed and actioned locally and at Group level to address short- and medium-term requirements<br>• Health and safety policies, procedures, training and monitoring in place<br>• Employee wellbeing support mechanisms in place | • Increased attractiveness of Imperial as an employer for both current and potential employees through the promotion of a diverse and inclusive culture, opportunities for personal development, and support for individual and team well-being<br>• People and skills are a key facilitator of strategy delivery, with success enhanced by the attraction and retention of requisite capabilities and mindset<br>• Continued promotion of safety culture facilitating reduced lost working time and operational effectiveness confirming Imperial as an employer of choice |

## LIQUIDITY AND GOING CONCERN STATEMENT

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

The Group recognises uncertainty of the external environment. Given the current macroeconomic situation, our plans include higher than historical inflation impact to cost of sales driven by commodity price increases, energy and logistic costs, as well as higher people costs.

During the period of the COVID-19 pandemic, as well as during the ongoing period of political uncertainty with regard to Ukraine and Russia, the Group effectively managed operations across the world, and has proved it has an established mechanism to operate efficiently despite uncertainty. The Directors consider that a one-off discrete event with immediate cash outflow would pose the greatest potential challenge to short term liquidity of the Group.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios that may affect the business. These included scenarios which examined the implications of:

- A one-off discrete event resulting in immediate cash outflow, such as unexpected duty or tax payments of c. £1 billion.
- A rapid and lasting deterioration in the Group's profitability due to markets becoming closed to tobacco products or sustained failures in our tobacco manufacturing and supply chains. These assumed a permanent reduction in profitability of 15% from 1 October 2022.
- Additional impact of potential bad debt risks arising from a recession, of c. £220 million.
- Withdrawal of facilities that provide receivables factoring of c. £560 million.

The scenario planning also considered mitigation actions including reductions to capital expenditure and dividend payments and share buyback programme.

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 the worst-case scenario, where the largest envisaged downside scenarios all take place at the same time, the Group would have sufficient headroom until December 2023. The Group believes this worst-case scenario to be highly unlikely given the relatively small impact on our trading performance and bad debt levels during the COVID-19 pandemic. In addition, the Group has a number of mitigating actions available that could be implemented should such a scenario arise.

Based on its review of future cash flows covering the period through to March 2024, 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 specifically, have adequate resources to meet their operational needs from the date of this Report through to 31 March 2024, and concludes that it is appropriate to prepare the financial statements on a going concern basis.

## VIABILITY STATEMENT

The Board has reviewed the long-term prospects of the Group in order to assess its viability. This review, which is based on the business plan which was completed in July 2022, incorporated the activities and key risks of the Group together with the factors likely to affect the Group's future development, performance, financial position, cash flows, liquidity position and borrowing facilities as described in the 'Managing risk' section of this report on pages 82 to 83.

In addition, we describe in notes 20 to 21 the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to market, credit and liquidity risk.

### Assessment

In order to report on the long-term viability of the Group, the Board reviewed the overall funding capacity and headroom available to withstand severe events and carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The assessment assumes that any bank debt maturing in the next three years can be re-financed at commercially acceptable terms or via our current standby facility.

The Board believes that three years is an appropriate time horizon given the current business portfolio and limited visibility beyond three years. This assessment also included reviewing and understanding both the impact and the mitigation factors in respect of each of those risks. The viability assessment has two parts:

- First, the Board considered the period over which it has a reasonable expectation that the Group will continue to operate and meet its liabilities, taking into account current debt facilities and debt headroom; and
- Second, it considered the potential impact of severe but plausible scenarios over this period, including:
  - assessing scenarios for each individual principal risk, for example commercial issues and the impact of regulatory challenges; and
  - assessing scenarios that involve more than one principal risk, including multi-risk scenarios.

### Findings

#### Viability review period

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to September 2025.

This reflects the period used for the Group's business plans and has been selected because, together with the planning process set out above, it gives management and the Board sufficient, realistic visibility on the future in the context of the industry environment.

The Group's annual corporate planning processes include completion of a strategic review, preparation of a three-year business plan and a periodic re-forecast of current year business performance and prospects. The plans and projections prepared as part of these corporate planning processes consider the Group's cash flows, committed funding, forecast future funding requirements, banking covenants, and other key financial ratios, including those relevant to maintaining our investment grade ratings. These projections represent the Directors' best estimate of the expected future financial prospects of the business, based on all currently available information.

The use of the strategic plan enables a high level of confidence in assessing viability, even in extreme adverse events, due to a number of mitigating factors such as:

- The Group has mature business relationships and operates globally within well established markets
- The Group's operations are highly cash-generative and the Group has access to the external debt markets to raise further funding
- Flexibility of cash outflow with respect to the ability to manage dividend returns to investors, capital expenditure projects planned to take place within the three-year horizon, and promotional marketing programmes.

### Risk impact review

For each of our principal risks, plausible risk impact scenarios have been assessed together with a multiple risk scenario. The following table summarises the key scenarios that were considered, both individually and in aggregate:

| Risk scenarios modelled | Level of severity reviewed | Link to principal risk |
|---|---|---|
| The consequences of adverse operating and commercial pressures, involving volume reduction and/or falls in margin, driven by unforeseen reductions in the size of the legitimate tobacco market or other changes in the level of consumer demand for our products. | The maximum quantifiable impact of all envisaged business risks, including the impact of a loss of market size and share and lack of pricing.<br>The value of these combined risks total £1.4 billion over the three-year period under review.<br>A further worst-case scenario has also been considered, modelling a 15% reduction on remaining EBITDA after consideration of the isolated business risks. The value of this EBITDA modelled totals £1.8 billion over the three-year period under review. | • Pricing, excise or other product tax outcomes not in line with planning assumptions<br>• Failure to manage the impacts of regulatory change.<br>• Product supply fails to meet market demands<br>• Major incident resulting from cyber or similar technology risk<br>• Change in consumer behaviour<br>• Inability to develop, execute and communicate an effective ESG strategy in line with expectations of relevant stakeholders<br>• Failure to develop a commercially sustainable harm reduction category<br>• Product portfolio and/or interaction approach not aligned to consumer preferences |
| The possible costs associated with legal and other regulatory challenges, including competition inquiries and tax audits. | Failure to successfully defend existing and reasonably foreseeable future legal and regulatory challenges, at the expected financial exposure.<br>The value of these combined risks is c.£100m. | • Failure to appropriately manage litigation results in adverse judgements and/or related costs<br>• Failure to manage direct and indirect tax positions and reporting<br>• Failure to attract or retain required capabilities and talent<br>• Inability to develop, execute, and communicate an effective ESG strategy in line with expectations of relevant stakeholders |

None of the scenarios reviewed, either individually or in aggregate, would cause Imperial Brands to cease to be viable.

Climate-related risks have been assessed as causes of a number of the underlying risks which are included within the scenario modelling, including, but not limited to, the failure to supply product due to weather-related impacts on individual factories, the cost of complying with environmental legislation, and the impact that climate change has upon the supply of raw materials (notably leaf). Any incremental cost would have an EBITDA impact lower than that modelled as part of the scenario testing. In 2022 climate-related risks have been assessed as part of the quantified climate scenario analysis, concluding that during FY23-FY25 business will be relatively unaffected by either physical or transition risks and therefore these do not represent a material risk from a viability perspective.

## CONCLUSION

On the basis of this robust assessment of the principal risks facing the Group, the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2025.

# READY FOR THE NEXT PHASE OF OUR STRATEGY

## DEAR SHAREHOLDER

I am pleased to introduce Imperial Brands PLC's Corporate Governance Report for the financial year ended 30 September 2022.

### The year in review

During 2022, the Board remained focused on supporting management's disciplined delivery of our five-year strategy amid continued challenges, including rising inflation and a growing cost-of-living squeeze. This year our business has also been challenged by Russia's invasion of Ukraine, which necessitated urgent action to protect the long-term interests of the Company. Our first priority is the safety and wellbeing of our people and their families. This continues to be the case for our Ukraine colleagues. On page 109, you can find out more about how we took into consideration the interests of our stakeholders in addressing the situation in Ukraine and in exiting from Russia.

With the ending of COVID-19 restrictions, the Board has resumed in-person meetings and engaged face to face with our broad range of stakeholders, including shareholders, consumers, customers, suppliers and, of course, our people. During the year the Board has met in the UK, US and Spain.

This report marks the end of the second year of our renewed five-year strategy. It has been a year of consolidation, reinforcing the progress of the previous year to ensure a stable platform from which to move into the next phase of our strategy. The Board and the Executive Leadership Team have worked hard to maintain and build on a resilient and sustainable governance framework, which we believe makes us stronger and better placed to take sound decisions in the interests of the Company and its stakeholders.

### Purpose, vision and behaviours

Last year, we committed to oversee the further development and embedding of the Company's purpose, vision and behaviours, a key framework that underpins the delivery of our strategy. Responsibility sits at the heart of our vision and this year in particular saw developments in our approach to ESG issues. The reconstituted ESG Executive Committee, evolved out of the Board's ESG Steering Committee that I was chairing, is in place. It is chaired by our Chief Executive Officer and reports directly to the Board, which retains close oversight of this important work.

**You can read more about our purpose and vision on page 13, our behaviours on page 23, our corporate governance framework in the pages that follow, and our ESG programme on pages 36 to 58.**

### Our people and culture

Our people remain our greatest asset. We have been following the progress being made in developing a performance-based culture aligned to our purpose, vision and behaviours. The Board has been closely involved in the cultural transformation journey being led by our People and Culture team.

**More details on our workforce engagement activities can be found on page 31, and more information about our people and culture initiatives can be found on pages 52 to 58.**

I would like to take this opportunity to thank all our people for their contribution to the business, demonstrated in their focus on our consumers, and their care for each other, most vividly reflected in the amazing £87k raised by colleagues around the world for those affected by the situation in Ukraine.

### Succession planning and diversity

Our strong focus on succession planning, as well as our firm commitment to diversity, continue and the commitment does not stop with the Board. You will read in the People and Governance Committee report on pages 113 to 118 about the progress we are making to address diversity recommendations at Board and senior management level.

It is an important feature of delivering our strategy that our culture is transformed and becomes performance based. See pages 55 to 56 for a deep dive into the progress of our Employee Resource Groups.

### Stakeholders

You will read on pages 30 to 34 about how we ensure that we consider the views of our stakeholders in our decision-making process. Our engagement with stakeholders, including our employees, provides the Board with rich context and background when making decisions. I am particularly pleased with how we addressed one of our key objectives for the year, which was to get closer to the consumer. Further information on our stakeholder engagement can be found on pages 30 to 34 and in our Section 172 statement on pages 108 to 112. Our people, under the aegis of our the ESG Executive Committee, have worked hard on our ESG strategy, building on previous years' work and honing our approach, which we believe now has clarity and depth.

### Risk management

Regular reporting has provided the Board and its Committees with information to consider and use to guide management in responding to the events of the year, including the ongoing COVID-19 pandemic and the situation in Ukraine, as well as to monitor our underlying principal risks.

These are more fully described on pages 82 to 93.

Like many companies, the Board recognises climate change as a global threat as well as a direct threat to the Group's operations. We are committed to addressing climate change and we were one of the first FTSE100 companies to commit to being a Net Zero company across our global operations and value chain by 2040.

For more information on our sustainability initiatives and our first stand-alone report aligned to the requirements of the Task Force on Climate-related Financial Disclosures, see pages 59 to 65.

### Shareholder engagement

Our Chief Executive Officer, Chief Financial Officer, and I have met virtually and in person with shareholders throughout the year. In addition to hearing about our strategy, purpose and vision, shareholders have been interested in our ESG initiatives and our approach to creating a culture and environment within which our people will perform best to support our strategy.

As I mentioned earlier, our investor perception survey suggests they are supportive of these initiatives. You can find further detail on our investor engagement on page 107.

### Changes to the Board

In November 2021, we welcomed Ngozi Edozien and Diane de Saint Victor as independent Non-Executive Directors. Their appointments enhance the breadth of experience and diversity of views we have on the Board.

Following the Annual General Meeting on 2 February 2022, Steven Stanbrook retired as a Non-Executive Director. I would like to thank Steven for six years' valuable service to the Company. He was a highly engaged member of the Board, including in his role as Workforce Engagement Director.

Read about all our Board's skills and experience on pages 96 to 100.

### Board effectiveness

To ensure the Board and its Committees continue to work effectively, the Board has undertaken an internal review of its performance. The outcome of this year's evaluation concludes that the Board continues to operate effectively. Details of this year's evaluation, and the significant progress made against last year's actions can be found on pages 116 to 118.

### STRUCTURE AND CONTENT OF THE GOVERNANCE REPORT


| | |
|---|---|
| Chair's introduction | 94 |
| Board Leadership | 96 |
| Compliance statement | 100 |
| Role and purpose of the Board and its Committees | 101 |
| Governance framework | 101 |
| Board in action | 104 |
| Board engagement with stakeholders | 108 |
| People and Governance Committee report | 113 |
| Audit Committee report | 119 |
| Remuneration Committee report | 130 |
| Directors' report | 149 |
| Directors' statement | 155 |


### Looking forward

The progress we have made this year has provided us with a sound platform from which to look forward with confidence to the next phase of our strategy.

The 2023 Annual General Meeting will be held on 1 February 2023. Further details can be found in the Notice of Annual General Meeting sent to shareholders and made available on the Company's website. I look forward to meeting many of you then.

**Thérèse Esperdy**
Chair

### 1. BOARD LEADERSHIP AND COMPANY PURPOSE

The Company is led by an effective and determined Board, focused on the long-term sustainable success of the Company, generating value for shareholders and stakeholders, and contributing to wider society.

Read more on pages 13 and 96 to 99.

### 2. DIVISION OF RESPONSIBILITIES

The Chair and the Chief Executive Officer have clearly defined and separate responsibilities, and there is an appropriate combination of Executive and independent Non-Executive Directors.

Read more on page 102.

### 3. COMPOSITION, SUCCESSION AND EVALUATION

Appointments are subject to a formal, rigorous and transparent procedure. Succession plans, designed to promote diversity of gender, social and ethnic backgrounds and cognitive and personal strengths, are in place for the Board and senior management. An evaluation of the Board and its Committees is undertaken annually, in line with the Code.

Read more on pages 113 to 118.

### 4. AUDIT, RISK MANAGEMENT AND INTERNAL CONTROL

Formal, transparent policies and procedures are in place to ensure the independence and effectiveness of the internal and external audit functions and the integrity of financial and narrative statements, and to manage and mitigate risks.

Read more on pages 119 to 129.

### 5. REMUNERATION

The Company has remuneration policies and practices designed to support its strategy and promote long-term sustainable success. Executive remuneration is aligned to the Company's purpose and vision, and is clearly linked to the delivery of the Company's long-term strategy.

Read more on pages 130 to 148.

# A SKILLED AND DIVERSE BOARD

Find out more at www.imperialbrandsplc.com/about-us/leadership-team

## Committee membership

- (P) People & Governance Committee
- (A) Audit Committee
- (R) Remuneration Committee
- ◆ Committee Chair

1. Public listed company.
2. Private organisation.

## BOARD OF DIRECTORS

### 1. Thérèse Esperdy
Chair Ⓡ Ⓟ

**Appointment**
Joined the Board in July 2016, serving as Senior Independent Director from May 2019 and appointed Chair in January 2020.

**Career and Experience**
Thérèse has significant international investment banking experience having held a number of roles at JP Morgan including Global Chair of JP Morgan's Financial Institutions Group, Co-Head of Asia-Pacific Corporate & Investment Banking, Global Head of Debt Capital Markets, and Head of US Debt Capital Markets. She began her career at Lehman Brothers and joined Chase Securities in 1997 prior to the firm's merger with JP Morgan in 2000.

**Skills and Competencies**
Thérèse brings to Imperial her excellent international leadership experience from serving on boards of both US and UK listed companies. She brings to bear her astute understanding of our business, the sector we operate in and the concerns of our investors.

**External Appointments**
- Non-Executive Director, Senior Independent Director and Chair of the Finance Committee of National Grid Plc[1].
- Non-Executive Director of Moody's Corporation[1].

### 2. Stefan Bomhard
Chief Executive Officer

**Appointment**
Appointed in July 2020.

**Career and Experience**
Stefan joined Imperial from Inchcape plc, a global distribution and retail leader in the premium and luxury automotive sectors, where he delivered successful transformational change during a five-year tenure as Chief Executive.

Prior to Inchcape, Stefan was President of Bacardi Limited's European region and was also responsible for Bacardi's Global commercial organisation and Global Travel Retail. Previous roles have included Chief Commercial Officer of Cadbury plc and Chief Operating Officer of Unilever Food Solutions Europe. This followed senior management and sales and marketing positions at Diageo (Burger King) and Procter & Gamble.

**Skills and Competencies**
With a PhD in marketing and significant exposure to multiple consumer sectors in large multinational organisations, Stefan brings excellent brand-building and consumer-led sales and marketing experience to Imperial, notably in other "challenger" businesses (Burger King and Bacardi).

**External Appointments**
- Non-Executive Director of Compass Group PLC[1].

### 3. Lukas Paravicini
Chief Financial Officer

**Appointment**
Appointed May 2021.

**Career and Experience**
Lukas has a proven track record in multinational consumer goods companies around the world. He joined Imperial from agricultural commodities and brokerage group ED&F Man Holdings, where he was Chief Financial Officer. He has also held senior positions at Fonterra, a New Zealand and Australia listed co-operative and the world's largest dairy exporter, with sales in 130 countries. He was Chief Financial Officer from 2013-2017 and Chief Operating Officer, Global Consumer and Foodservice Business from 2017-2018. Prior to that, he spent 22 years with Nestlé in various senior finance and general management roles.

**Skills and Competencies**
Lukas brings to Imperial broad financial and operational experience in consumer goods companies, and expertise in driving transformational change, including implementing global shared services in large international organisations.

**External Appointments**
- None.

### 4. Sue Clark
Senior Independent Director Ⓐ Ⓟ Ⓡ

**Appointment**
Appointed Non-Executive Director in December 2018, Chair of the Remuneration Committee in February 2019 and Senior Independent Director in January 2020.

**Career and Experience**
Sue has strong international business credentials with over 20 years' Executive Committee and Board-level experience in the FMCG, regulated transport and utility sectors. Sue held the role of Managing Director of SABMiller Europe and was an Executive Committee member of SABMiller plc. She joined SABMiller in 2003 as Corporate Affairs Director and was part of the executive team that built the business into a top-five FTSE company.

**Skills and Competencies**
With a background in corporate and regulatory affairs, Sue brings to Imperial international experience in FMCG and regulated businesses and major corporate transactions, as well as expertise in governmental and regulatory relations. Sue is a passionate advocate for the contribution business can make to wider society, which brings valuable insight to Imperial's ESG ambitions.

**External Appointments**
- Non-Executive Director, Chair of the Remuneration Committee and member of the Nominations Committee of Britvic plc[1].
- Non-Executive Director and member of the Audit, Nominations and Remuneration Committees of Mondi plc[1].
- Non-Executive Director of Tulchan Communications LLP[2], a leading advisory firm.

### 5. Diane de Saint Victor
Non-Executive Director Ⓟ Ⓡ

**Appointment**
Appointed November 2021.

**Career and Experience**
Diane has strong legal, regulatory, M&A, business alliance and ESG experience, having held a number of General Counsel, Company Secretary and other key roles in an international career. She spent 13 years on the Executive Committee, as General Counsel & Company Secretary, of ABB, the global technology company. Prior to joining ABB, she served as a Senior Vice President and General Counsel of Airbus Group from 2004 to 2006 and from 2003 to 2004 as a Vice President and General Counsel at SCA Hygiene Products. She spent a decade working at Honeywell, ultimately holding the post of Vice President and General Counsel International.

### Skills and Competencies
Diane brings over 30 years' experience of broad international legal, governance and regulatory expertise gained from a range of senior executive and non-executive positions in multinational organisations, as well as experience of transforming organisations in sectors undergoing change.

### External Appointments
- Non-Executive Director of Natixis, SA[2].
- Non-Executive Director and member of the Audit and HSES Committees, of Transocean Ltd[1].
- Non-Executive Director of C&A[2].

## 6. Ngozi Edozien
Non-Executive Director (A) (P)

### Appointment
Appointed November 2021.

### Career and Experience
Ngozi has over 25 years' experience in finance/private equity, general management and strategy/business development functions with multinational companies in Europe, the US and Africa. She joined McKinsey & Company in 1992, leaving in 1999 to join Pfizer Inc. as Vice President, Pfizer Global Pharmaceuticals (PGP) Strategic Planning and Business Development, a position she held until her appointment in January 2005 as the Regional Director, PGP East, Central and Anglophone West Africa. She served as Head of West Africa for Actis LLP from 2009 until 2014. She spent six years on the Board of PZ Cussons and four years on the Board of Vlisco PLC.

### Skills and Competencies
Ngozi brings to Imperial over 30 years' experience in general management, finance, strategy, business development and transformation gained at multinational companies, including in regulated consumer goods, in Europe, the US and Africa.

### External appointments
- Non-Executive Director and member of the Finance and Risk Committee of Guinness Nigeria, a listed subsidiary of Diageo[1].
- Non-Executive Director of Stanbic IBTC Holdings PLC[1].
- Non-Executive Director of Barloworld Ltd[1].

## 7. Alan Johnson
Non-Executive Director (A) (P)

### Appointment
Appointed in January 2021.

### Career and Experience
Alan has a strong financial background in consumer goods and retail, having held a number of senior finance positions at Unilever in Africa, Europe and Latin America during a 30+ year career, including Chief Audit Executive and Chief Financial Officer of the Global Foods Division.

He was previously Chief Financial Officer and then a Non-Executive Director of Jerónimo Martins SGPS, S.A., a food retailer with operations in Portugal, Poland, and Colombia, until April 2016, and retains a role as the independent chairman of the company's Internal Control Committee. Between July 2018 and September 2020 he was a Non-Executive Director of the UK Department for International Development (DFID) and chaired its Audit & Risk Assurance Committee.

### Skills and Competencies
As well as his financial acumen and international experience across mature and developing markets, Alan brings to Imperial experience of risk management and successfully managing business transformations, lending further strength to the Board's governance and effectiveness.

### External appointments
- President and Chair of the Board of the International Federation of Accountants[2].
- Member of the Board and Chair of the Audit Committee of the International Valuation Standards Council[2].
- Non-Executive Director of William Grant & Sons Ltd[2].
- Non-Executive Director of DS Smith plc[1].

## 8. Bob Kunze-Concewitz
Non-Executive Director (P) (R)

### Appointment
Appointed November 2020.

### Career and Experience
Bob is an experienced marketing professional and has held a number of senior roles at leading FMCG companies. He was appointed Chief Executive Officer of Campari Group, a major player in the global spirits industry, in May 2007 having joined the business in 2005 as Group Marketing Director. Bob previously held positions of increasing responsibility and global reach at Procter & Gamble, including Global Prestige Products Corporate Marketing Director.

### Skills and Competencies
With a strong track record of successfully executing brand and marketing strategies at the most senior level, Bob brings to Imperial international brand experience and a profound understanding of delivering for the consumer.

### External appointments
- Chief Executive Officer of Campari Group[1].
- Non-Executive Director of Luigi Lavazza S.p.A.[2]

## 9. Simon Langelier
Non-Executive Director (A) (P)

### Appointment
Appointed June 2017.

### Career and Experience
Simon has significant international experience within the tobacco industry. He held a number of senior commercial positions during a 30-year career with Philip Morris International, including in Latin America, Asia, Western and Eastern Europe, the Middle East and Africa. In addition, he was President of their Next Generation Products & Adjacent Businesses. Simon was also Chairman for almost six years of PharmaCielo Limited, a Canadian-based supplier of medicinal-grade cannabis oil extracts and related products.

### Skills and Competencies
As well as a deep understanding of the tobacco industry, Simon brings to Imperial knowledge and experience of its NGP agenda.

### External appointments
- Non-Executive Director of CryoMass Technologies Inc.[1]

Committee membership

- (P) People & Governance Committee
- (A) Audit Committee
- (R) Remuneration Committee
- ◆ Committee Chair

1. Public listed company.
2. Private organisation.

## 10. Jon Stanton
Non-Executive Director (A) (P) (R)

### Appointment
Appointed May 2019.

### Career and Experience
Jon has a wide range of international leadership experience, encompassing transformation, M&A and all aspects of finance, principally in the B2B sector.

In 2016 he was appointed Chief Executive of The Weir Group PLC, one of the world's leading engineering businesses, having previously been CFO from 2010. Prior to that he spent 22 years at Ernst & Young, LLP, the last nine years of which were as a partner in its London office, where he led global board-level relationships. Jon is a Chartered Accountant and a member of the Institute of Chartered Accountants in England and Wales.

### Skills and Competencies
Jon brings a breadth of experience, with a first-class international business track record, including significant US exposure, as well as investor relations experience and the financial acuity to challenge constructively at the Board and its Committees.

### External appointments
- Chief Executive of The Weir Group PLC[1].

## 11. John Downing
Company Secretary

### Appointment
Appointed June 2012. Secretary to the Board and each of the Board Committees.

### Career and Experience
John, a qualified solicitor, joined Imperial in 2005 having previously worked for the law firm Linklaters. He has had a number of senior legal roles in Imperial, including playing a leading role in the acquisition of the Altadis business, and becoming Head of Group Legal in 2010. He has considerable experience in managing key corporate projects related to financing, business development and other commercial matters. In addition to his Group Company Secretary role, John has responsibility for the Group's governance, security, anti-illicit trade and information security functions.

# BOARD LEADERSHIP

## BOARD LEADERSHIP

Early in the year, we strengthened the depth and breadth of capability and experience on our Board and in our Executive Leadership Team. The enhanced combination of skills and competencies sets up Imperial for delivering the next phase of our five-year strategy.

### Leadership Skills Matrix

| | Other current NED or Exec roles | FTSE/NYSE experience | UK corporate governance | Financial qualification | FMCG | Marketing & digital | Product development | Strategy | International | Change management / HR | ESG | Gov & Reg Affairs |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | | | | | | | |
| Thérèse Esperdy (Chair) | ◆ | ◆ | ◆ | ◆ | | | | ◆ | ◆ | ◆ | ◆ | ◆ |
| Sue Clark (SID) | ◆ | ◆ | ◆ | | ◆ | | | ◆ | ◆ | ◆ | ◆ | ◆ |
| Diane de Saint Victor ** | ◆ | ◆ | ◆ | | | ◆ | | ◆ | ◆ | ◆ | ◆ | ◆ |
| Ngozi Edozien ** | ◆ | ◆ | | ◆ | ◆ | | | ◆ | ◆ | ◆ | | |
| Alan Johnson | ◆ | ◆ | | ◆ | ◆ | | | ◆ | ◆ | | ◆ | |
| Bob Kunze-Concewitz | ◆ | | | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Simon Langelier | ◆ | ◆ | | | ◆ | | ◆ | | ◆ | ◆ | | |
| Steven Stanbrook * | ◆ | ◆ | | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | | |
| Jon Stanton | ◆ | ◆ | ◆ | ◆ | | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| **Executive Directors** | | | | | | | | | | | | |
| Stefan Bomhard (CEO) | ◆ | ◆ | ◆ | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | | |
| Lukas Paravicini (CFO) | | | | ◆ | ◆ | | | ◆ | ◆ | ◆ | | |

* Until 2 February 2022 at the end of the AGM
** Ngozi Edozien and Diane de Saint Victor appointed 15 November 2021

## COMPLIANCE STATEMENT

It is the Board's view that for the financial year ended 30 September 2022, the Company has complied with all the requirements of the UK Corporate Governance Code 2018 (the Code).

The Company's auditor, EY LLP, is required to review whether the above statement reflects the Company's compliance with the provisions of the Code specified for its review by the UK Listing Authority's Rules (UKLA) and to report if it does not reflect such compliance. No such report has been made.

### Our Commitment to Corporate Governance

The Board is committed to the high standards of corporate governance set out in the Code. The Code can be found at https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.

This Corporate Governance Report, together with the Directors' Remuneration Report set out on pages 130 to 148, describe how the Board has applied the main principles of good corporate governance and complied with the relevant provisions as set out in the Code for the year under review.

The Directors' Report also contains information required to be disclosed under the UKLA Rules and under the Disclosure Guidance and Transparency Rules (DTR). To the extent necessary, certain information has been incorporated into this Report by reference.

Throughout the Corporate Governance Report and Directors' Report, we have set out how we apply the main principles and complied with the relevant provisions of the Code.

# THE ROLE AND PURPOSE OF THE BOARD AND ITS COMMITTEES

## FOCUS IN 2022

- The wellbeing of our people and continuing business stability during the ongoing COVID-19 pandemic, as well as the Russia/Ukraine conflict.
- Board succession and diversity.
- Further development and embedding of our renewed culture and purpose.
- Delivery against our strategy.
- Our NGP strategy.
- Our ESG strategy.

## LOOKING AHEAD TO 2023

- The wellbeing of our people, particularly in Ukraine, as well as those impacted by the cost-of-living crisis.
- Delivery in our first year of Phase 2 of our strategy, particularly given geopolitical and macro-economic factors.
- Our NGP agenda, as we move into an accelerated roll-out phase.
- The embedding of our cultural transformation.
- Our ESG agenda.

### Board and Committee membership as at 30 September 2022

| | Board | Audit Committee | Remuneration Committee | People & Governance Committee |
|---|---|---|---|---|
| **Non-Executive Directors** | | | | |
| Thérèse Esperdy (Chair) | ◆[2] | | ◆ | ◆[1, 2] |
| Sue Clark (SID) | ◆ | ◆ | ◆[2] | ◆ |
| Diane de Saint Victor | ◆ | | ◆ | ◆ |
| Ngozi Edozien | ◆ | ◆ | | ◆ |
| Alan Johnson | ◆ | ◆ | | ◆ |
| Bob Kunze-Concewitz | ◆ | | ◆ | ◆ |
| Simon Langelier | ◆ | ◆ | | ◆ |
| Jon Stanton | ◆ | ◆[2] | ◆ | ◆ |
| **Executive Directors** | | | | |
| Stefan Bomhard (CEO) | ◆ | | | |
| Lukas Paravicini (CFO) | ◆ | | | |

1. Unless dealing with the succession of the Chair.
2. Denotes Chair

Executive Directors are invited to attend when appropriate.
John Downing is Secretary to the Board and each of the Board Committees.
Ngozi Edozien and Diane de Saint Victor appointed 15 November 2021.

## GOVERNANCE FRAMEWORK

The Board is responsible for the governance of the Company, undertaking its duties within a framework of clear authorities and governance structures, with effective controls that enable risk to be assessed and managed effectively.

The Board sets the tone for the Group from the top and delegates specific tasks to its Committees. Each of these Committees has specific written terms of reference issued by the Board, adopted by the respective Committee and published on our website. All Committee chairs report on the proceedings of their Committee at the next meeting of the Board, and make recommendations to the Board where appropriate. Minutes of Committee meetings are circulated to all Board members.

To ensure Directors are kept up to date on developments and to enhance the overall effectiveness of the Board, the Board Chair and Committee chairs communicate regularly with the Chief Executive Officer and the Chief Financial Officer. Where appropriate the Board convenes virtually outside of scheduled meetings to consider time-sensitive matters.

The Board is responsible to shareholders and stakeholders for approving the strategy of the Group, for overseeing the performance of the Group and evaluating and monitoring the management of risk in a manner that is most likely to promote the Company's long-term success.

As part of the governance framework, the Board has adopted a schedule of matters on which it must take the final decision. These include approving the Group's strategy, business plans, dividend, major financial announcements, and acquisitions and disposals exceeding defined thresholds.

Each member of the Board has access, collectively and individually, to the Company Secretary and is also entitled to obtain independent professional advice at the Company's expense, should they decide it is necessary in order to fulfil their responsibilities as Directors.

## BOARD ROLES AND COMPOSITION

While the Board shares collective responsibility for its activities, some roles have been defined in greater depth below.

### Chair
Leads the Board and creates an environment that ensures there are strong links between the Board, management and stakeholders.

### Senior Independent Director
Assists the Chair with effective shareholder communications including if investors have any issues which have not been resolved through the normal channels. Is available to other Directors should they have any concerns not appropriate to raise with the Chair.

### Non-Executive Directors
Evaluate information provided and challenge constructively management's viewpoints, assumptions and performance. They bring a diverse range of business and financial skills and experience that complement and supplement those of the Executive Directors.

### Chief Executive Officer
With the CFO, has day-to-day management responsibility for the Group and for implementing the Group's strategy.

### Chief Financial Officer
Supports the CEO in implementing strategy and overseeing the finances, operations and development of the Group.

### Company Secretary
Provides independent advice to the Board on matters of corporate governance and supports the Chair and the Non-Executive Directors. Is responsible for ensuring good governance practices at Board level and throughout the Group.

## BOARD COMMITTEES

The Board delegates certain matters, listed below, to Board Committees, consisting of members of the Board. For further details, see the table of Board and Committee membership at 30 September 2022 on page 103.

### Audit Committee
Assists the Board in fulfilling its corporate governance responsibilities. This includes oversight of the Group's external audit, internal control systems, risk management framework and processes, and the Group Internal Audit department. The Committee's responsibilities also include ensuring the integrity of the Group's financial statements and related announcements.

This Committee is chaired by Jon Stanton.

See page 119.

### Remuneration Committee
Sets and implements our Remuneration Policy aimed at aligning the interests of Executive Directors and senior management with those of our stakeholders, ensuring our ability to attract and retain high-performing executives whilst incentivising the delivery of our strategic objectives and sustained returns for investors.

This Committee is chaired by Sue Clark.

See page 130.

### People and Governance Committee
Reviews and evaluates the composition and succession plans of the Board and its Committees, to maintain an appropriate balance of skills, knowledge, experience and diversity. Retains oversight of the development plans for Executive Leadership Team (ELT) members together with the Company's wider organisational structure, its diversity, equity and inclusion agenda, and its talent management processes. Oversees workforce engagement and culture. Reviews and develops the Board's corporate governance framework, including the Board performance evaluation process.

This Committee is chaired by Thérèse Esperdy.

See page 113.

### Ad hoc committees
Ad hoc committees may be established to review and approve specific matters or projects. For example, this year an ad hoc sub-committee of the Board was established to consider the Company's approach in respect of the Ukraine crisis.

## EXECUTIVE LEADERSHIP TEAM

The Board delegates responsibility for developing and implementing strategy, and for the day-to-day running of the business, to Stefan Bomhard, Chief Executive Officer, who is assisted in his role by the Executive Leadership Team (ELT) comprising the members listed on page 9.

The ELT is responsible for overseeing the operational execution and delivery of our strategic and financial plans. This includes: business performance management; transformation and cultural change initiatives; talent, capability and succession; major investments, divestment and capital expenditure proposals; business development considerations; ESG initiatives; and risk assessment and management.

For further details, see page 9.

## OTHER NON-BOARD COMMITTEES

The Board delegates certain matters, as follows, to management committees consisting of senior executives:

### Treasury Committee
(reporting to the Audit Committee)

This Committee reviews and approves material banking and treasury matters, providing second line of defence oversight of treasury-related risks.

This Committee is chaired by the Chief Financial Officer.

### Disclosure Committee
(reporting to the Board)

Approves the release of communications to investors and the London Stock Exchange. Reviews whether communications are inside information.

This Committee is chaired by the Company Secretary.

### ESG Steering Committee
(reporting to the People and Governance Committee, the Audit Committee and the Remuneration Committee as well as the Board)

As highlighted in our last Annual Report, with the new ELT in place, it was appropriate to reconstitute this Committee with delegated responsibility to management, and so this was done this financial year.

The purpose of this Committee is to define the Company's strategy relating to ESG and to provide oversight of its ESG programme, which is designed to assist in promoting the long-term sustainable success of the Company.

This Committee is chaired by the Chief Executive Officer.

### Risk Committee
(reporting to the Board and Audit Committee)

This Committee oversees and manages enterprise-wide risk by ensuring that the Group Risk Register remains relevant on an ongoing basis, reflecting the Group's risk appetite against those identified risks, and providing perspectives on the risks raised whilst also establishing the most effective presentation of risks for ELT and Board review.

In addition, the Committee oversees and, where necessary, directs the effective design and operation of the Group's governance, risk management and internal control framework.

This Committee is chaired by the Chief Executive Officer.

### Group Pensions Committee
(reporting to the Audit Committee and the Remuneration Committee)

This Committee has been established to provide global oversight on both risk and reward elements of the Group's pension arrangements, which were historically dealt with locally.

The Committee's objectives include tackling the risks inherent in the Group's defined benefit pension schemes as well as reward matters.

This Committee is chaired by the Chief Financial Officer.

## BOARD PROGRAMME IN 2022

### How the Board discharged its responsibilities in 2022

In addition to the seven scheduled Board meetings, the Board also met virtually a number of times, including during March and April 2022 to consider and make a decision in response to Russia's invasion of Ukraine.

### Attendance at meetings of the Board, Board Committees and AGM

| Name/Meeting | 1<br>11/21 | 2<br>02/22 | 3<br>03/22 | 4<br>05/22 | 5<br>06/22 | 6<br>08/22 | 7<br>09/22 | AGM[1] |
|---|---|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | | | |
| Thérèse Esperdy (Chair) | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Sue Clark (SID) | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Diane de Saint Victor [2] | n/a | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Ngozi Edozien [2] | n/a | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Alan Johnson | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Bob Kunze-Concewitz | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Simon Langelier | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | |
| Steven Stanbrook [3] | ◆ | ◆ | n/a | n/a | n/a | n/a | n/a | |
| Jon Stanton[4] | ◆ | ◆ | ◆ | ◆ | ◆ | | ◆ | |
| **Executive Directors** | | | | | | | | |
| Stefan Bomhard (CEO) | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Lukas Paravicini (CFO) | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |

Notes:
1. In light of a rise in COVID-19 following the emergence of the Omicron strain, the Board decided that it was in the best interests of the Company to limit the number of Directors attending the AGM in person.
2. Appointed 15 November 2021.
3. Retired 2 February 2022 following the conclusion of the 2022 Annual General Meeting.
4. Jon Stanton was unable to attend one meeting due to a prior personal commitment.

Note: n/a signifies not eligible to attend.

Standard agenda items include strategy development and implementation, business performance and general corporate housekeeping. These are supplemented by updates, deep dives, special reports and matters brought to the Board for decision.

## BOARD IN ACTION

We focused on the following in 2022:

| The wellbeing of our people and our continuing business stability during the COVID-19 pandemic | Delivery against our renewed strategy |
|---|---|
| COVID-19 continued to impact Imperial, its people and its business. As a Board, we remained vigilant and ready to respond to the ongoing challenges of the global pandemic.<br>See opposite for an in-depth study of how we monitored the wellbeing of our people and ensured the stability of the business. | In this second year of our five-year strategy, building secure foundations in preparation for the acceleration phase, the Board maintained its focus on delivery.<br>See page 106 for an in-depth study of the Board's considerations in the context of some of the strategic pillars and critical enablers. |
| **Stakeholders engaged:** employees, suppliers, customers, investors | **Stakeholders engaged:** employees, consumers, suppliers, customers, investors, regulators |
| **S172 factors: a, b, c, d, e, f** | **S172 factors: a, b, c, d, e, f** |
| **See page 108 for definitions of S172 factors.** | |

| Board succession and diversity | Further development and embedding of our renewed culture and purpose |
|---|---|
| During 2022 we strengthened the Board, and in doing so addressed succession planning and diversity. In addition, succession planning for the ELT was a focus during the year. Nonetheless, succession planning is an ongoing requirement and diversity is an area where continuous improvement is an absolute necessity – this is acknowledged and has been codified in the People and Governance Committee's terms of reference, which were amended and approved at the People and Governance Committee's September meeting.<br>For further information, please see the People and Governance Committee report at pages 113 to 118. | As highlighted in the Transforming our culture section on pages 22 & 23, as well as the People and Governance Committee report, the Board takes a keen interest in the cultural transformation that the organisation is undertaking. In addition to regular updates to both the full Board, and the People and Governance Committee, the Board has undertaken a number of "Meet the Board" sessions: in November (Bristol), February (Bristol), March (Spain), June (US), and September (London).<br>Find details on pages 107, 113, and 133. |
| **Stakeholders engaged:** employees, investors | **Stakeholders engaged:** employees, investors |
| **S172 factors: a, b, c, d, e, f** | **S172 factors: a, b, c, d, e, f** |

Non-Executive Director Ngozi Edozien during a visit to a trade customer in the US

## IN-DEPTH STUDY:

**The wellbeing of our people and our continuing business stability during the COVID-19 pandemic**

It is easily forgotten how the first half of our financial year continued to be impacted by COVID-19. The Board was kept informed of the impact of the pandemic on our people and on the business on at least a monthly basis.

The November 2021 meeting noted that whilst the trend in positive tests was largely stable, some markets were showing renewed spikes (for example Russia, UK and Ukraine), and others were experiencing refreshed lockdown challenges (for example Laos, forcing the temporary closure of the factory there). In addition, challenges were being experienced in Global Supply Chain (GSC), particularly with non-tobacco materials (NTMs), where there was a significant watch-out on price pressures, commodity shortages and logistics. GSC confirmed that the situation could be managed successfully.

By the time of the February meeting, the Omicron variant appeared to be responsible for a rise in cases across the business, with the biggest spikes in the US, Spain and UK. Whilst these cases amongst our employees appeared to have a lower health impact and cause less business disruption to the business than earlier variants, steps continued to be taken to ensure our people were fully looked after, including continuous improvement steps to reinforce segregation in factories to avoid the risk of cross-infection.

Even at the March Board meeting, weekly infection numbers were still higher, but with no further hospitalisations since the last update in early February. The Board noted the ongoing challenge of absenteeism for the factories, in particular with the Europe region seeing rates of up to 15%. Nonetheless, our factories continued to manage through this, maintaining a zero out-of-stock standard. Likewise, the supply chain situation remained unchanged, with the business again managing through the logistics challenges and supplier pressures.

After over two years, management took the decision at the start of April to cancel its weekly Group COVID-19 calls and to consider absenteeism and any discernible COVID-19-related supply chain impacts within the wider context of performance management. As such, the Board was also updated on the wellbeing of our people and our continuing business stability pursuant to the COVID-19 pandemic in that wider context.

During our regular investor meetings we provided updates on how we were managing COVID-19-related challenges to our business.

Having been fully updated on a very regular basis throughout, the Board remains proud of the Company's response to the pandemic, with our employees also acknowledging that response as a defining feature of the Group's positive attitude towards the wellbeing of our people.

## BOARD ACTIVITIES 2021/22

The topics covered by the Board in its meetings during the financial year are detailed below:

| Meeting | Focus area | Discussion points/Decisions made |
|---|---|---|
| November 2021 (Bristol, UK) | • FY21 Performance<br>• ESG | • Approval of the full year announcement, the year-end results presentation and the Annual Report and Accounts.<br>• Review of work on our renewed ESG strategy, including approval of the terms of reference for the reconstituted ESG Committee. |
| February 2022 (Bristol, UK) | • Performance<br>• Russia/Ukraine<br>• ESG<br>• NGP Strategic Review<br>• Cyber security | • Q1 performance update, including ongoing COVID-19 challenges, contingency planning in respect of the escalating situation in Ukraine, and the growing inflation cost challenge.<br>• Endorsement of the Group's ESG strategy.<br>• Brand experience, consumer immersion and deep dive into the NGP strategy one year on from the announcement of the Group strategy.<br>• Update on the Group's cyber security posture, including its response preparedness in the event of a cyber attack. |
| March 2022 (Madrid, Spain) | • Priority markets (Spain)<br>• Russia / Ukraine<br>• Risk | • Performance update overall, but with an emphasis on Spain, including management discussions, consumer immersion, employee engagement, store visits and an update from Logista's CEO.<br>• Assessment of the Ukraine crisis and actions being, and to be, taken.<br>• Risk assessment update. |
| May 2022 (London, UK) | • Performance<br>• Inflation update<br>• Digital Transformation<br>• ESG | • Half year performance and announcement, with an update and assessment of the business being on track with the implementation of its strategy, including the NGP pilots and progress on the cultural transformation.<br>• Discussion with the Chief Supply Chain Officer on inflationary pressures and actions to mitigate the impact of these.<br>• Investment case for a single digital technology core enterprise resource planning (ERP) system.<br>• A review of the ESG landscape. |
| June 2022 (Greensboro, US) | • Priority markets (US)<br>• NGP strategy | • Performance update overall, but with an emphasis on the US, including management discussions, factory visit, leaf education session, consumer immersion, employee engagement and store visits.<br>• Focus on the US NGP market, including the legal and regulatory environment. |
| August 2022 (virtual, via Teams) | • Performance<br>• Regulatory affairs | • Q3 update, including inflation management, manufacturing capacity (COVID-19 absenteeism, the exit from Russia and the relocation of Kyiv factory production).<br>• Regulation horizon scanning and strategy. |
| September 2022 (London, UK) | • Performance<br>• Business Plan<br>• Risk<br>• Investor audit | • Performance update, including inflation tracker.<br>• Discussion and approval of the FY23 business plan.<br>• Board risk assessment, including risk appetite.<br>• Investor feedback discussion. |

## IN-DEPTH STUDY: DELIVERY AGAINST OUR RENEWED STRATEGY

As can be seen from the summary of key items discussed at the various Board meetings over the year, the Board has maintained its focus on delivery against the strategy, with this being the second year of building foundations in preparation for the acceleration phase for years three to five.

The Board looks at delivery, performance and improvement in the context of the Group's strategic pillars and critical enablers, about which you will read elsewhere. By way of example, the Board's activities in 2022 included the following consideration in respect of key elements of the strategy:

### Focusing on our priority markets

The Board looks in detail at the performance of each priority market as part of the monthly performance reporting and/or in the business review at each meeting. In addition, in March and June the Board visited two of the five priority markets, Spain and the US. In each review, discussions centred on overall strategy (including people and culture and must-win battles, as well as combustibles and NGP), consumers, portfolio management (including "local jewel" brands), route to market, market share, regulation and competitors.

### Building a targeted NGP business

Our Chief Consumer Officer presented to the Board in February on the NGP strategy one year on from the launch of the Group strategy, outlining the renewed analysis of the NGP landscape that had been undertaken, together with data-points and learnings from the ongoing NGP pilots in Europe and US. The Board endorsed the strategy and approach, noting that with an improved product, focused execution, and clear and differentiated target consumer, Imperial can expect to start to build up its NGP share position. Learnings from the pilots have provided a clearer view of the challenges and the investments required to deliver on our NGP ambition. Taking into account the investment and project spend required to support a step-up in innovation and consumer investment, the Board approved the necessary investment, including the incremental investment behind the NGP strategy, as part of the FY23 business plan at the September Board meeting. For more information on the Board's decision, refer to Stakeholder engagement on pages 30 to 34.

As mentioned above, the Board continues to be informed of, and discuss, the NGP strategy and performance, including market-specific considerations during its visits to Spain and the US.

Building a targeted NGP business is also a key part of the Group's ESG strategy in relation to consumer health. As set out above and on pages 36 to 58, ESG has been a focus area for the Board, with the overall ESG strategy being endorsed at the February Board meeting. In addition, and following engagement with investors, as set out in the Directors' Remuneration Report on page 132, we have included a consumer health metric into the annual bonus metrics.

### Consumer at the centre of the business

The Board has focused on this key enabler to the strategy by overseeing the strengthening of critical capabilities required to deliver it, including with the building of the Chief Consumer Office. The consumer has been noticeably "present" in the Board room, both through regular updates and discussions on key aspects of bringing the consumer to the centre of the business, and by Board members participating in three consumer immersion events at the February (Bristol), March (Spain), and June (US) Board meetings. The Board also participated in store visits in March, June and November.

### Simplified and efficient operations

As set out on page 24, a key enabler of our strategy is to simplify the organisation through global processes underpinned by technology.

With the need to replace end of life fragmented enterprise resource planning (ERP) systems, the opportunity to do so in a way that delivers better standardisation and integration was acknowledged by the Board. Building on the Central Finance (CFin) investment, the intention is therefore to create a standard core ERP with master data integrity and business platforms supporting all markets and factories, on which other applications can be built as the business evolves. The investment case for this single digital technology core ERP was discussed and approved at the May Board meeting, with the Board recognising that the significant multi-year investment will be a key enabler of the strategy and associated key business objectives. Details of how the Board took stakeholders into account in making its decision can be found on page 110.

### Driving value from our broader market portfolio

As set out on page 17, our strategy proposed a more rigorous approach to driving value from the breadth of our full market portfolio.

The strategy is focused on strengthening our regional and cluster structures, ensuring each of our markets is allocated the appropriate investment while managing our smaller markets to ensure they have the agility they need to spot trends and capitalise on emerging growth opportunities.

The Board was kept up to date with progress during the year, including discussions at its May meeting relating to the creation of a product innovations team and work reviewing the positioning of the right brands at the right price point across a number of markets.

### Performance-based culture and capabilities

As set out on page 23, the Board approved the launch of "Connections", our new purpose, vision and behaviours to all of our employees globally.

At its June meeting the Board received a progress report on culture and capabilities. A further update relating to the interaction of talent, capability and culture with the transformation of the operating model was provided to the Board in September.

### Engagement with Investors

We value the support and engagement of our equity and debt investors and understand the importance of this to our ability to access capital. Our aim is to provide balanced, clear and transparent communications enabling investors to understand how we see our prospects and the market environments in which we operate. Over the course of 2022 our teams held around 650 meetings with investors and research analysts through the following:

- results presentations and trading updates;
- CEO and CFO participation at investment banking conferences;
- investor roadshows in the UK, North America, Asia, with private client brokers and wealth managers and with debt investors in support of US dollar bond issue;
- two webinars: "Gaining traction in the US market" and "Our refreshed ESG agenda";
- our AGM, providing an opportunity for the Board to meet with shareholders, particularly our retail investors;
- shareholder engagement on our proposed ESG metrics into FY23 executive remuneration; and
- ad hoc meetings at the investors' request.

To monitor the effectiveness of this engagement, the Board commissioned an investor perception study during 2022 to gather feedback from investors and non-shareholders. The key findings were that shareholders believe Imperial has the right strategy in both combustible tobacco and in NGP, which plays to its strengths and position in the industry and there is widespread support for the new capital allocation policy. Shareholders are also supportive of the management team and are pleased with the operational progress to date. They are keen to see progress in NGP, which is considered a critical area to underpin long-term growth, and they also want to see signs of performance improving in the next three-year phase of the plan.

### Engagement with Colleagues

Despite the challenges of the COVID-19 pandemic, we have continued our workforce engagement activities. The People and Governance Committee has embraced its wider role as the workforce champion. Our "Meet the Board" listening sessions continue to provide the opportunity for a two-way dialogue between our colleagues and NEDs, tackling themes such as diversity and inclusion, ESG and culture. The sessions also included discussion in respect of investor sentiment, the Group's NGP ambitions, its digital marketing approach, regulation and the Russian invasion of Ukraine. These open and honest sessions have been positively received, and are considered by colleagues to be helpful in connecting to the strategy and the enablers for delivering it.

**Specific engagement:**

| | |
|---|---|
| November 2021<br>UK | • "Meet the Board" session<br>• Store visit with UKI team |
| March 2022<br>Spain | • "Meet the Board" session<br>• Office drinks<br>• Dinner with local management |
| June 2022<br>USA | • "Meet the Board" session<br>• Office drinks<br>• Dinner with management<br>• Factory tour and leaf education |
| September 2022<br>UK | • "Meet the Board" session<br>• Dinner with management |

Read more on how the Board considers all our stakeholders, and how the Directors fulfil their duties under Section 172 of the Companies Act 2006, in our S172 statement and accompanying information on pages 108 to 112.

## INVESTOR ENGAGEMENT DURING FY22

**OCTOBER**

Results
- Pre-close trading update

**NOVEMBER**

Results
- FY Results

Roadshows
- UK
- Private Client

**DECEMBER**

Conferences
- Virtual

Roadshows
- North America
- Private Client

**FEBRUARY**

Roadshows
- Private Client

Engagement
- AGM 2022

**MARCH**

Conferences
- Boston
- Virtual

Engagement
- Webinar on gaining traction in the US market

**APRIL**

Results
- Pre-close trading update

**MAY**

Results
- HY Results

Roadshows
- UK
- North America

**JUNE**

Conferences
- Paris

Roadshows
- Private Client

**JULY**

Roadshows
- Canada
- Asia

**AUGUST**

Engagement
- Engagement on ESG metrics in remuneration

**SEPTEMBER**

Conferences
- Boston

Engagement
- Webinar on Environmental, Social & Governance

# STATEMENT ON SECTION 172 OF THE COMPANIES ACT 2006

## Effective engagement with a wide range of stakeholders, including consumers, colleagues, governments and regulators, our customers, suppliers, and investors is key to the successful delivery of our strategy and vision in the long term.

During the year, the Directors acted in a way they considered, in good faith, most likely to promote the Company's long-term success for the benefit of its members as a whole, paying due regard to the matters set out in Section 172 of the Companies Act 2006.

In taking into account the various interests of all relevant stakeholders when making decisions, the Board recognises it is not always possible to achieve each stakeholder's preferred outcome. Which stakeholder groups' interests are considered depends on the decision at hand. The Board endeavours to balance the different priorities and interests of our stakeholders in a way compatible with the long-term, sustainable success of the business and which aligns with our purpose, vision and behaviours.

Examples of key decisions taken by the Board during the year and how stakeholder views and inputs, as well as Section 172 factors, have been considered in its decision-making are shown on the following pages, which together form our Section 172 statement.

The Board recognises its responsibility to give due regard to the following matters in arriving at its decisions:

### Section 172 factors

- (a) The likely consequences of any decision in the long term
- (b) The interests of the Company's employees
- (c) The need to foster business relationships with suppliers, customers and others
- (d) The impact of the Company's operations on the community and the environment
- (e) The desirability of the Company maintaining a reputation for high standards of business conduct
- (f) The need to act fairly as between members of the Company

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as s. 172 considerations, have been considered in its decision-making are shown on the following pages.

### Key stakeholders

- Consumers
- Customers
- Governments and regulators
- Colleagues
- Suppliers
- Investors

# CONSIDERING STAKEHOLDERS IN KEY DECISIONS

## Decision to withdraw from Russia

ⓐⓑⓒⓓⓔⓕ

The Board was informed of the Company's ongoing contingency planning in respect of a possible invasion of Ukraine at its Board meeting on 1 February 2022. It was kept updated on the Company's response to the unfolding situation with regular reports, including being fully briefed on measures being taken to assist our employees in Ukraine.

Following an emergency Board call on 7 March 2022, we announced the suspension of all operations in Russia. This decision took into account the complex implications for various stakeholders, including Imperial's reputation as a responsible UK public company, an assessment of evolving international sanctions and growing concerns among suppliers and shareholders.

The Board then met as scheduled on 10 March 2022 and was briefed on how stakeholders were reacting to the crisis, including employees, consumers, shareholders, media and governments. The Board discussed next steps regarding the Russian business, again taking into account key stakeholders in both Russia and Ukraine, as well as competitor and other FMCG company reactions. A Board sub-committee was established to deal with urgent matters, whilst ensuring the Board was kept informed of developments.

Taking into account the implications for its various stakeholders, the Board decided that it was best for the success of the Company in the long term to exit Russia. On 15 March 2022, following a sub-committee meeting, the Company announced that it had begun negotiations to transfer its Russian assets and operations to a local third party. In negotiating the Company's exit from Russia, the safety and wellbeing of its employees was the key priority, with the Board deciding that an orderly transfer of the business as a going concern would be in the best interests of its 1,000 colleagues in Russia. In addition, despite always operating within the law, it was increasingly apparent that the international sanctions being imposed upon Russia were making several suppliers nervous about supplying Imperial, which could have impacted their business and Imperial's relationship with them in the longer-term.

The Board continued to receive updates on both the proposed exit from Russia and the situation in Ukraine, allowing a sub-committee of the Board to approve the exit, which completed on 20 April 2022. The Company safeguarded every Imperial job in Russia, with all employees transferring with the business. This was particularly important for those employed in Volgograd, given the importance of our factories in the communities in which they are located.

The Board continued to be updated on the crisis in Ukraine throughout the year, including the sad news in August that one of our Kyiv factory employees, who had joined the Ukrainian military, had been killed in the fighting.

### S172 CONSIDERATIONS AT A GLANCE

| | |
|---|---|
| Likely long-term consequences of the decision | Our decision brought stability to a complex and quickly evolving situation. It was informed at every step by consideration of the long-term consequences to the Group of continuing to do business in Russia or withdrawing from the market and protecting the wider business and its stakeholders. |
| Interests of our colleagues | Prompt action meant we safeguarded the interests of our Imperial Russia colleagues by ensuring their transfer as part of a going concern. At the same time, the interests of our colleagues in Ukraine and the wider business was a key factor in considering the long-term consequences of our decision. |
| Fostering business relationships with suppliers, customers and others | We took into account our suppliers' concerns about the potential impact of international sanctions on Russia. Our decision has secured our relationships with those suppliers. |
| Impact on community and environment | We recognised our decision would particularly affect the community around our factory at Volgograd. Taking that into account, we acted quickly to transfer the business as a going concern, safeguarding local jobs. |
| Maintaining a reputation for high standards of business conduct | Imperial conducted itself in this internationally volatile political situation with integrity and discipline. The Board remained updated and ready to act at short notice, applying high standards of governance, and considering the interests of all our stakeholders, while responding decisively. |
| Need to act fairly between members | The Board acted fairly when considering all key stakeholders in its decision-making. Once decisions were made, we provided clear and transparent reporting on our plans and progress. |

## Decision to approve investment behind our digital transformation strategy

ⓐⓑⓒⓓⓔⓕ

The Board was fully supportive of the digital transformation strategy and therefore the investment case for a single digital technology core enterprise resource planning (ERP) capability with master data integrity. In particular, the Board took into account the long-term sustainability of Imperial as a whole, seeing the investment as a key enabler of the strategy and associated key business objectives, which will further strengthen the foundations for a stronger, more resilient future, by:

- allowing the business to better serve its customers, with a consistent view of the consumer enabled by data;
- enabling rapid and nimble product innovation and introduction to help provide consumers with greater choice;
- increasing supply chain responsiveness and reducing wastage through an integrated end-to-end supply chain;
- allowing greater insight into customer and supplier data, and greater consistency of data across the entire business, enabling it to make decisions about strategic partners that, for example, share its ESG values;
- allowing the business to rely on more predictable and consistent data, which gives the right information upon which to make clear, informed and agile decisions;
- delivering better standardisation and integration, allowing consistent reporting and use of data, and better placing the business to oversee governance and reinforce its capabilities to deliver high standards of business conduct.

### S172 CONSIDERATIONS AT A GLANCE

| | |
|---|---|
| Likely long-term consequences of the decision | Transforming our digital capabilities is core to the strategy and Imperial's long-term success. |
| Interests of our colleagues | Streamlined systems and processes will empower our people to deliver their best work and make sound data-driven choices. In making its decision, the Board was keen to strike a balance between speed of implementation and the burden on colleagues to deliver a multi-year programme. |
| Fostering business relationships with suppliers, customers and others | Improved access to information allows the business to put the consumer first, giving it the ability to innovate and introduce new products quickly to satisfy consumer demand. At the same time, having an enhanced data analytics capability will allow the business to further develop its strong commercial relationships with our customers and suppliers. |
| Impact on community and environment | Greater insight into customer and supplier data, and greater consistency of data across our business, will enable us to make decisions about strategic partners that share our values, for example, on ESG and information security. |
| Maintaining a reputation for high standards of business conduct | Consistent reporting from across our international business means we are better placed to oversee governance and reinforces our capabilities to deliver high standards of business conduct. |

## Decision to extend the roll-out of NGP

ⓐⓑⓒⓓⓔⓕ

With NGP being a key enabler to achieving the Group's purpose and vision, as well as the commercial reality that NGP is gaining an increasing share of the total nicotine profit pools, the Board has fully supported Imperial's commitment to building a targeted NGP business based on consumer insights and validation.

To assist the Board in understanding the NGP strategy, one year on from the launch of Imperial's overall strategy, and to allow the Board to make a decision on the NGP roll-out for the next few years, the NGP Strategy Team provided the Board with a brand experience for both EVP and heated tobacco. Brand and product display booths were used to bring the consumer, product and experience to life for the Board, together with a comparison to competitor brands. This was supplemented with a consumer immersion event, with Board members talking to a group of vapers and a cohort of heated tobacco consumers.

In addition, the Board was presented with renewed analysis of the NGP landscape, together with data from the ongoing NGP pilots in Europe and the US. The Board was able to consider the Group's proposed footprint and category offerings with data points which indicated that with an improved product, focused execution, and a clear and differentiated target consumer, Imperial should be able to start building its NGP share position. Linked to this was consideration of the need to establish and maintain key supplier partnerships, as well as an understanding of the regulatory environment in the short, medium and longer term.

Taking into account a number of factors, including; consumer preferences, the attraction and retention of employees linked to having a growing non-tobacco business, investor and ESG analysts' appetite to see evidence of the transformation from a predominantly tobacco business to NGP business, adopting a challenger mentality by leading with supplier partnerships for innovation, and the regulatory landscape and horizon – the Board endorsed the roll-out plan for EVP benefiting from a better product and scale in Europe, and the accelerated roll-out of heated tobacco to new markets, thus helping Imperial's sustainability for the long-term.

### S172 CONSIDERATIONS AT A GLANCE

| | |
|---|---|
| Likely long-term consequences of the decision | Building a targeted NGP business is one of our key strategic pillars. Our decision to support the considered extension of our NGP products to new markets is based on learning from the past while continuing to secure our future. |
| Interests of our colleagues | Strengthening the portfolio and building a sustainable NGP business is fundamental to our Purpose and what we are all striving to achieve over the long term. This not only improves opportunities for growth for existing employees, but also attracts new talent into a growing non-tobacco business. |
| Fostering business relationships with suppliers, customers and others | Implementing a successful NGP business, which is responsive to consumer demands, allows the business to build connections with new partners, while strengthening relationships with existing ones. |
| Impact on community and environment | Our decision to support our NGP strategy underpins our Purpose, which is to forge a path to a healthier future for moments of relaxation and pleasure. This is our commitment to make a positive contribution to a healthier future for our consumers and society, including through potentially reduced risk products. |

### Section 172 of the Companies Act 2006

The Board seeks to consider the interests of all relevant stakeholders when making decisions. Our formal statement is disclosed on page 108. Throughout this Annual Report we have included information on how the Board operates and considers the interests of stakeholders when making its decisions.

Read more on pages 108 to 111.

### Viability statement

On the basis of a robust assessment of the principal risks facing the Group, and the assumption that they are managed or mitigated in the ways disclosed on pages 82 to 93, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2025.

Read more on pages 92 and 93.

### Going concern basis

Having assessed the principal risks facing the Group, including the current and forecast future impacts of the ongoing COVID-19 pandemic, emerging geopolitical strains, and the impact on consumers of fuel, food and inflation challenges, the Board is of the opinion that the Group as a whole and Imperial Brands PLC have adequate resources to meet operational needs from the date of this Report through to March 2024 and, therefore, concludes that it is appropriate to prepare the financial statements on a going concern basis.

Read more on page 92.

### Principal risks and uncertainties

The processes and related reporting described in the Principal Risks and Uncertainties section on pages 82 to 93 enables the Audit Committee to review and monitor the effectiveness of our risk management and internal control systems and confirm their effectiveness to the Board, in accordance with the recommendations of the Code.

Read more on pages 82 to 93.

### Fair, balanced and understandable

The Directors confirm that they consider, taken as a whole, this Annual Report and Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Read more on page 127.

### Modern slavery statement

As an international business, we recognise the importance, influence and duty we have in promoting respect for human rights across our business and supply chains. We prepare an annual modern slavery statement which is available on our website. Our e-learning module, which provides a global overview of human rights abuse of modern slavery, and explains how employees can raise concerns, is now available in 15 languages and rolled out to employees. This year, the course was also delivered in person to over 2,500 people who do not have access to online learning in Laos and Madagascar including farmers.

Read more on page 50 and 51.

# PEOPLE AND GOVERNANCE COMMITTEE

## ABOUT THE PEOPLE AND GOVERNANCE COMMITTEE

### Membership* and attendance:

| Name/Meeting | 1<br>11/21 | 2<br>03/22 | 3<br>05/22 | 4<br>09/22 |
|---|---|---|---|---|
| Thérèse Esperdy (Chair)[1] | ◆ | ◆ | ◆ | ◆ |
| Sue Clark (SID) | ◆ | ◆ | ◆ | ◆ |
| Diane de Saint Victor[2] | n/a | ◆ | ◆ | ◆ |
| Ngozi Edozien[2] | n/a | ◆ | ◆ | ◆ |
| Alan Johnson | ◆ | ◆ | ◆ | ◆ |
| Bob Kunze-Concewitz | ◆ | ◆ | ◆ | ◆ |
| Simon Langelier | ◆ | ◆ | ◆ | ◆ |
| Steven Stanbrook[3] | ◆ | n/a | n/a | n/a |
| Jon Stanton | ◆ | ◆ | ◆ | ◆ |

1. Unless dealing with the succession of the Chair.
2. Appointed 15 November 2021.
3. Retired 2 February 2022 following the conclusion of the 2022 Annual General Meeting.

* Only members are entitled to attend. Executive Directors are invited to attend when appropriate.
Note: n/a signifies not eligible to attend

### Other regular attendees

- Company Secretary, as Secretary to the People and Governance Committee
- Chief Executive Officer
- Chief Financial Officer
- Chief People and Culture Officer
- Other senior executives as appropriate

### Role of the People and Governance Committee

Following the decision to extend its remit, the People and Governance Committee is also responsible for the social and governance components of our ESG agenda. The Committee assists the Board in fulfilling its governance responsibilities to maintain an appropriate balance of skills, experience and diversity on the Board and in senior management, to implement succession plans for the Board and senior management, and to evaluate Board, Committee and Director effectiveness. It also covers the Board's corporate governance framework and its workforce engagement strategy.

## STRUCTURE AND CONTENT OF THE PEOPLE AND GOVERNANCE COMMITTEE REPORT


About the People and Governance Committee 113
People and Governance Committee chair's overview 113
Board balance 114
Gender balance in senior management 114
Diversity and Inclusion Policy 114
Committee's main responsibilities 115
Activities in 2022 and looking ahead to 2023 116
Board evaluation 116
Workforce engagement 118


## PEOPLE AND GOVERNANCE COMMITTEE CHAIR'S OVERVIEW

### Dear shareholder

I am pleased to present to shareholders the report of the People and Governance Committee for the year ended 30 September 2022, which sets out how the Committee has discharged its duties in accordance with the Code and details the key matters it considered during the year.

### Broader scope and terms of reference

The externally facilitated Board evaluation conducted in 2021 recommended that, to support the Company's cultural transformation, the remit of the then Succession and Nominations Committee be broadened to include employee engagement strategy and monitoring our wider culture change activities, essential to meeting our objectives under the renewed strategy. To reflect the wider remit, we changed the name of the Committee to the "People and Governance Committee" and updated its terms of reference, which can be found on our website.

### Board diversity

The diversity we achieved at Board level by 30 September 2022 is summarised opposite.

We are always mindful of our diversity obligations, including the recommendations of the Hampton–Alexander Review and the ongoing FTSE Women Leaders Review, and will continue to incorporate their recommendations into our search criteria for new Board members and senior management.

We remain committed to the Hampton-Alexander target of at least 33% female Board membership. As at the date of this report, Imperial's figure is 40%.

We continue to embrace diversity of gender, cultural background and experience, and expect this to be increasingly reflected in our Board composition over the coming years. We support the Parker Review's ethnic diversity recommendations. We currently have two Board members (20%) who identify as being from an ethnic minority background.

In 18 months, we have transformed our Executive Leadership Team from 14% women and 0% People of Colour/ethnic minority, to 30% women and 20% people of colour/ethnic minority.

This was important in sending an initial, early signal to our people of the positive action we will take to create a truly diverse and inclusive organisation. We have also created a dedicated diversity, equity and inclusion (DEI) team – the first in the history of the organisation.

As a Group, we are working to address imbalances in representation throughout the business and, in support of this aim, we will be setting clear KPIs to increase female representation at senior levels and taking targeted action as part of our DEI strategy to maintain oversight of the delivery of talent and diversity initiatives, to ensure they remain consistent with our emerging culture.

See pages 55 and 56 for more information about our DEI agenda.

## BOARD CHANGES DURING THE YEAR

As you will have read in my letter on page 95, during the year we welcomed Ngozi Edozien and Diane de Saint Victor to the Board and, after six years' valuable service, Steven Stanbrook retired.

### Induction programme

Since their appointment, Ngozi and Diane have undertaken a series of induction meetings with key areas of the business, both individually and together, as well as furthering their understanding of the business when attending Board meetings – for example via the educational sessions held at the Greensboro factory.

### Board evaluation

This year's Board evaluation was internally facilitated. You can read more about how we responded to last year's externally facilitated evaluation and the recommendations drawn from this year's evaluation on pages 116 to 118.

### Election and re-election of Directors

All Directors are appointed following a rigorous selection process. This is led by the People and Governance Committee which, supported by the Group People and Culture function, makes recommendations to the Board.

Read more about the skills and experience of our Board on pages 96 to 110.

In accordance with the Code and with the Company's Articles of Association, all Directors who are not retiring put themselves up for re-election annually at the AGM. The Board recommends the re-election of all Directors who are standing at our 2023 AGM.

Each Director may be removed at any time by the Board or our shareholders.

**Thérèse Esperdy**
Chair of the People and Governance Committee

### Board gender balance

| | |
|---|---|
| Male | 60% |
| Female | 40% |

### Board ethnicity

| | As at 30 September 2022 |
|---|---|
| Non-ethnic minority background | 80% |
| Ethnic minority background | 20% |

### Tenure of Non-Executive Directors at 30 September 2022

| | As at 30 September 2022 |
|---|---|
| 5-7 Years | 28.5% |
| 3-5 Years | 14.3% |
| 0-3 Years | 57.2% |

### Senior management gender balance

| | |
|---|---|
| Male | 74% |
| Female | 26% |

## MAIN RESPONSIBILITIES

In line with the authority delegated by the Board, the People and Governance Committee:

- Reviews and evaluates the composition and effectiveness of the Board and its Committees to maintain the appropriate balance of skills, knowledge, experience and independence, and makes recommendations to the Board with regard to any changes, while having due regard to the benefits of diversity on the Board.
- Ensures that succession plans for the Chair, Non-Executive Directors (NEDs), Executive Directors and Group senior management are in place and kept under review.
- Nominates suitable candidates for appointment to the Board and its Committees, and makes recommendations to the Board on any matters relating to the continuation in office of any Director at any time.
- Approves the appointment of any Director to executive or other office, and retains oversight of the development plans for Executive Leadership Team members.
- Reviews and develops the Board's corporate governance framework and monitors its compliance with corporate governance standards and practices, ensuring that it remains appropriate to the size, complexity and strategy of the Company.
- Maintains the Directors' conflicts of interest policy and determines the principles on which outside directorships may be accepted by Executive Directors.
- Reviews the Board's policy on diversity, equality and inclusion and the effectiveness of its implementation.
- Owns the workforce engagement strategy on behalf of the Board, monitoring its effectiveness, and reports to the Board.
- Strengthens the employee voice within the Boardroom.
- Assesses and monitors the Group's culture.

The People and Governance Committee consists entirely of independent NEDs, as defined in the UK Corporate Governance Code 2018 (the Code). The Board Chair is the Chair of the Committee, and was independent, as defined by the Code, on appointment.

Biographical details of the current members of the Committee are set out on pages 96 – 99.

The Committee's terms of reference, which can be found on our website state it must meet at least three times a year. A quorum for meeting is two NEDs.

The Committee is authorised to seek external legal advice and other independent professional advice as it sees fit.

| Meeting | Matters discussed and decisions taken |
|---|---|
| November 2021 | • "Connections" launch update<br>• Diversity and inclusion, including executives |
| March 2022 | • Committee terms of reference<br>• Workforce engagement<br>• Board evaluation actions update |
| May 2022 | • Workforce engagement<br>• "Have Your Say" survey<br>• Initiatives in place building culture change and engagement |
| September 2022 | • Engagement survey updates<br>• Talent and capability deep dive<br>• Committee terms of reference<br>• Progress updates on people and organisation strategies, including leadership, operating model and culture change<br>• ELT succession<br>• Board evaluation feedback |

## PEOPLE AND GOVERNANCE COMMITTEE'S ACTIVITIES 2021/22

The revised terms of reference of the People and Governance Committee have helped it focus its agenda over the year, covering the issues highlighted in the summary of meetings on page 115 with "Connections" being the umbrella initiative covering the culture change, including the establishment of a performance-based culture. This included our DEI strategy, updates on the roll-out of behaviours, talent and capability-building strategies, and succession planning. The Committee also embraced workforce engagement through its "Meet the Board" sessions and feedback on the employee engagement initiatives.

### Looking ahead to 2023

The focus of the Committee in 2023 will continue to be on the cultural transformation of the business, which will include: updates, discussions and decisions on our DEI strategy and its implementation; planned cultural change activation, talent and capabilities, a continued focus on strengthening our succession, employee engagement and health, safety and wellbeing.

## INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

We require our Non-Executive Directors to remain independent from management so that they are able to exercise independent oversight and effectively challenge management. We therefore continually assess the independence of each of our NEDs. The Board is satisfied that the independence of those Directors who have external board appointments has not been compromised and there are currently no cross-directorships between Board members. The Board confirms that, with the exception of the Chair, who is not subject to the Code's independence test but met the independence criteria on appointment, all NEDs remained independent throughout the year as defined in the Code.

## CONFLICTS OF INTEREST

Our Directors have a statutory duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, and must give notice of any such conflict at the start of any Board meeting. The Company's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. Directors are not allowed to participate in such considerations or to vote regarding their own conflicts.

The Board considers all external directorships prior to appointment, reviewing any potential conflict of interests and time commitment for both Executive and Non-Executive Directors. All potential conflicts are submitted to the Board for consideration and, if appropriate, authorisation in accordance with our Articles of Association and the Companies Act 2006, and are entered into our Conflicts Register. As part of our annual review process, all situations entered in the Conflicts Register are reviewed and reconsidered.

Details of the Directors' share interests are shown in the Directors' Remuneration Report on page 143.

## EXTERNAL DIRECTORSHIPS

Non-Executive Directors, including the Chair, may serve on a number of other boards provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company, nor represent a conflict of interest. The People and Governance Committee reviews the extent of the NEDs' other interests throughout the year. In line with the provisions of the Code, they are required to obtain approval of the Board prior to accepting any new office or employment. The Board is satisfied that each of the Non-Executive Directors commits sufficient time to their duties in relation to the Company. The Chair and each of the Non-Executive Directors have confirmed they have sufficient time to fulfil their obligations to the Company.

The Board encourages the Executive Directors and members of the Executive Leadership Team (ELT) to serve as Non-Executive Directors of external companies in order to widen their experience and knowledge for the benefit of the Company. Accordingly, in accordance with the Code and subject to the agreement of the Board, Executive Directors and members of the ELT are permitted to accept one external non-executive board appointment and to retain any fees received from such appointment. During the financial year, Stefan Bomhard was also a non-executive director of Compass Group PLC. No other ELT members had an external appointment.

## REAPPOINTMENT OF DIRECTORS

In accordance with the Code, all Directors offer themselves to shareholders for re-election annually, except those who are retiring immediately after the Annual General Meeting. Each Director may be removed at any time by the Board or the shareholders.

## INSURANCE AND INDEMNITIES

Our Directors and Officers can face significant personal liability under criminal or civil law or the UK Listing regime, and can face a range of penalties, including censure, fines and imprisonment. Each Director is covered by appropriate directors' and officers' liability insurance which the Company purchased and maintained throughout the year.

Qualifying third-party indemnity arrangements for the benefit of Directors, in a form and scope which comply with the requirements of the UK Companies Act 2006, were also in force throughout the year and up to the date of this Annual Report.

## BOARD EVALUATION

### Background

The Code requires that an external evaluation is carried out every three years, with an internal evaluation in the intervening years.

### Action taken in relation to 2021 evaluation

An externally facilitated independent evaluation was undertaken during May and June 2021, conducted by Lisa Thomas of Independent Board Evaluation. A summary of the recommendations arising from that evaluation together with how they have been addressed is as follows:

| Actions identified | Action taken |
| --- | --- |
| **Board focus**<br>In addition to its standard agenda, the Board agreed to prioritise its focus on certain key topics, including ESG, NGP and people and talent. | (i) As agreed, the Board's ESG Steering Committee has been reconstituted as an executive committee, chaired by the CEO. The ESG Committee reports directly on its meetings to the Board, ensuring the Board retains oversight of this important topic. As set out on pages 36 to 58, the Board has been closely involved in the ESG strategy;<br><br>(ii) NGP has remained a key focus, with the Board approving the continued investment behind developing the Group's NGP agenda, as set out on page 111; and<br><br>(iii) in addition to its expansion to include governance, the People and Governance Committee (formerly the Succession & Nominations Committee) has evolved to encompass the Group's people agenda, with updates on the cultural transformation, including talent, capability and succession, as further set out on pages 115.<br><br>Management has also assisted the Board to further enhance its approach to risk management, and has further improved the provision of information to the Board, both by way of Board papers and at meetings themselves, thus enabling appropriately-focused discussions to take place. |
| **Workforce engagement**<br>In support of deepening its knowledge of the business and encouraging greater collaboration with the new senior leadership team, the Board should ensure there would be a plan for greater engagement. | The People and Governance Committee has evolved to encompass a broader remit, including the Board's annual programme of workforce engagement initiatives. A number of workforce engagement activities took place in the year, as further highlighted on page 115.<br><br>The Board has also continued to build its own relationships and ways of working, including further cementing its relationships with management through regular contact, both inside and outside the boardroom. |
| **Board materials**<br>The Board's more focused agenda will be reflected in the approach to Board materials, including enhancing the information brought to bear in considering the Company's stakeholders. | As set out on pages 30 to 34, the Board has considered a broad range of stakeholders in the decisions it has taken. In addition, and in line with the strategy, the Board has had a particular focus on the consumer during the year, including by participating in a number of consumer immersion events (see page 30).<br><br>Feedback to this year's evaluation noted the improvements made on overall processes, logistics and materials. |

## 2022 BOARD EVALUATION

During July and August this year, the Board underwent an internally facilitated effectiveness review. This was led by our Chair, supported by the Company Secretary.

## REVIEW PROCESS

The review considered Board culture, Board focus, governance and process, and the Board Committees.

As part of the evaluation, the Chair held one-to-one meetings with each of the Board members to discuss their performance on the Board. The Senior Independent Director also held separate meetings with individual Board members and the Board as a whole, without the Chair present, to consider the performance of the Chair.

The evaluation showed that another year had further strengthened Board culture and dynamics, with an inclusive environment allowing for open discussions on focused agenda items.

The evaluation confirmed that all our Directors have sufficient time, knowledge and commitment to contribute effectively to our Board and its Committees, and that the Committees remain appropriately constituted.

The Board will prioritise its deep-dive focus on NGP, talent and longer-term strategic thinking. In addition, the Board will develop and monitor non-financial KPIs for qualitative issues such as culture and change management.

Other areas for consideration included bringing more external perspectives into the boardroom and broadening the Board's exposure to, and engagement with, external stakeholders.

## INDUCTION AND TRAINING

Following their appointment to the Board, new Directors receive a personalised induction programme which includes industry-specific training, meetings with senior management and site visits to the Group's businesses – although during the financial year these were initially restricted due to the COVID-19 pandemic. New Directors are also briefed on internal controls at both head office and business unit level and provided with information on relevant Company policies and governance-related matters.

This year, we concluded the induction programmes for Ngozi Edozien and Diane de Saint Victor. These programmes were tailored to their individual skills and experiences, and their roles on the Board. These induction programmes included:

- One-to-one meetings with senior executives to understand the roles played by our senior employees, and specifically how we do things at Imperial.
- Meetings with our external advisers, such as Allen & Overy, our corporate lawyers, EY LLP, our auditor, and Deloitte LLP, our Remuneration Committee adviser, to explain the legal and regulatory background to their roles on our Board and how these matters are approached at Imperial.

Our Board development programme focuses on facilitating a greater awareness and understanding of our business and stakeholders. Briefings are given by our advisers on legislative change and corporate governance developments, as well as focused Committee topics such as executive remuneration, financial reporting requirements and environmental issues. Periodic "deep dives" into various areas of the business are presented to the Board in the regular meeting schedule, and all Board members value and learn from their visits to the different Imperial sites around the world, where they meet with local managers of the businesses and see the daily operations in action. You can read more about our stakeholder engagement in more detail on pages 108 and 112.

The Chair regularly reviews the development needs of individual Directors and the Board as a whole.

The Company Secretary is responsible for advising the Board, through the Chair, on matters of corporate governance. In addition, all Directors have access to the advice of the Company Secretary and, where appropriate, the services of other employees for all governance and regulatory matters.

Independent professional advice is available to all Directors, in appropriate circumstances, at the Company's expense.

## WORKFORCE ENGAGEMENT

Steven Stanbrook, our nominated Workforce Engagement Director, stepped down from the Board on 2 February 2022.

In light of Imperial's global nature, and given the importance of our cultural transformation to the successful delivery of our strategy, the Board has determined that a more appropriate and impactful approach to workforce engagement is for all NEDs to be involved in this important aspect of Board responsibility and oversight. This is an alternative method to the Code's three suggested options.

Our programme for employee engagement has therefore been embedded in the wider remit of the People and Governance Committee.

As well as participating in site visits, the Board receives the results of workforce surveys and engages with employees directly through structured listening sessions. Regular updates provide the Board with information about progress on our people agenda, including our "Connections" programme, and our talent and capability mechanisms to nurture strength, depth and diversity in our talent pool.

To increase the reach of its workforce engagement the Board held four Meet the Board sessions and participated in a number of dinners, informal drinks and office visits. In addition, our Chair and CEO met with works counsel representatives in Poland during a visit to our factory in Radom, and our CEO met with the works counsel representative during a visit to Germany.

Workforce engagement is a key element of our wider people and culture initiatives and further detail can be found on page 31.

# AUDIT COMMITTEE

## ABOUT THE AUDIT COMMITTEE

### Membership* and attendance

| Name/Meeting | 1<br>11/21 | 2<br>02/22 | 3<br>05/22 | 4<br>09/22 |
|---|---|---|---|---|
| Jon Stanton (Chair) | ◆ | ◆ | ◆ | ◆ |
| Sue Clark (SID) | ◆ | ◆ | ◆ | ◆ |
| Ngozi Edozien [1] | n/a | ◆ | ◆ | ◆ |
| Alan Johnson | ◆ | ◆ | ◆ | ◆ |
| Simon Langelier | ◆ | ◆ | ◆ | ◆ |

* Only members are entitled to attend.
1. Appointed 15 November 2021
Note: n/a signifies not eligible to attend

### Other regular attendees during FY22

- Board Chair
- Chief Executive Officer
- Chief Financial Officer
- Finance Director – Group
- Company Secretary, as Secretary to the Audit Committee
- Group Financial Controller
- Director of Assurance and Risk
- Director of Tax
- Head of Internal Audit
- Representatives from EY, our external auditor

### Role of the Audit Committee

The Audit Committee assists the Board in fulfilling its corporate governance responsibilities relating to financial and narrative reporting and controls. This includes oversight of the Group's internal control systems, risk management process and framework, the Group Internal Audit department and the external audit.

It also involves ensuring the integrity of the Group's financial statements and related announcements.

### STRUCTURE AND CONTENT OF THE AUDIT COMMITTEE REPORT


About the Audit Committee 119
Audit Committee chair's overview 119
Focus in 2022 and looking ahead to 2023 121
Audit Committee's activities in 2021/22 122
Key matters considered 123
Governance, risk management and internal control 128
Internal audit 128
External audit 128
Directors' statement 129


## AUDIT COMMITTEE CHAIR'S OVERVIEW

### Dear shareholder

I am pleased to present the report to shareholders of the Audit Committee for the year ended 30 September 2022, which sets out how it has discharged its duties in accordance with the UK Corporate Governance Code 2018 (the Code) and details the key matters considered and findings during the year. The Audit Committee has exercised the authority delegated to it by the Board to provide assurance for the integrity of the Group's financial statements, to oversee the Group's external and internal audit and to review the Group's internal control and compliance frameworks.

This year, the ongoing COVID-19 pandemic, the war in Ukraine and the challenging global macro-economic environment provided the backdrop to Imperial's second year of its five-year strategy. It has been a year of continued improvement for Imperial's risk management, control and financial governance framework,

in service of the Group's strategic ambitions and its emerging performance-led culture.

The Board and Committee effectiveness review conducted in FY21 recommended the Committee focus on more simplified and efficient operational processes and promote a step-up in pace to enhancements of the Group's control framework. The Committee addressed this by ensuring an improvement in the information provided to it both in Committee papers and during Committee meetings themselves and to the Group's risk management processes.

See also the Committee's focus in 2022 on page 121.

The Audit Committee has closely scrutinised a number of areas when assessing critical judgements and estimates made by management and ensuring support for a robust financial close.

As a Committee, we continue to focus on ensuring the Annual Report is fair, balanced and understandable, with an emphasis on transparency of underlying performance drivers, and confirming both that adjusting items are in accordance with the agreed framework and that disclosures are enhanced where necessary to help users understand the accounts. This included ensuring that an appropriate balance within both the Half Year Report and the Annual Report of reported and adjusted results was presented.

Both external and internal auditors continue to present feedback on key financial risks and controls and to provide objective and appropriate challenge to management in addressing these areas. Both took advantage of regular private meetings with myself and the full Audit Committee throughout the year. These processes continue to enable the Audit Committee to report to the Board on how it discharged its responsibilities and to make recommendations to the Board, all of which were accepted.

The following pages provide an insight into the range of activities and deliberations of the Audit Committee during the financial year, supported by a fuller list of all key matters considered by the Audit Committee set out on pages 123 to 127.

**Jon Stanton**
Chair of the Audit Committee

## MAIN RESPONSIBILITIES

In line with the authority delegated by the Board, the Audit Committee:

- Reviews and challenges the critical management judgements and estimates which underpin the financial statements, drawing on the views of the external auditor in making an informed assessment, particularly in relation to each of the key matters detailed on pages 123 to 127.
- Maintains appropriate oversight over the work and effectiveness of Group Internal Audit, including confirming it is appropriately resourced, reviewing its audit findings and monitoring management's responses.
- Monitors and evaluates the effectiveness of Imperial's risk management and internal control systems, including obtaining assurance that controls are operating effectively and are evidenced as such through, for example, the internal self-certification exercise and subsequent internal audit testing.
- Reviews the adequacy and security of the Company's procedures for detecting fraud, and its systems and controls for preventing bribery.
- Scrutinises the independence, approach, objectivity, effectiveness, compliance and remuneration of the external auditor.
- Assesses the going concern status and medium-term viability of the Group.
- Assists the Board in confirming that, taken as a whole, the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy (see page 127).

The terms of reference of the Audit Committee can be found on our website.

## GOVERNANCE

The Audit Committee consists entirely of independent Non-Executive Directors as defined by the the Code. The Audit Committee chair and Alan Johnson meet the Code's standard of having recent and relevant financial experience. The Board is satisfied that they, and the Audit Committee as a whole, have the appropriate competence relevant to the sector in which the Company operates.

Biographical details of the current members of the Audit Committee are set out on pages 96 to 99. Members of the Audit Committee are appointed by the Board following recommendation by the People and Governance Committee.

The Audit Committee's terms of reference state it must meet at least three times a year. The quorum for meetings is two.

At each meeting, both the Director of Assurance and Risk and EY had the opportunity to meet with the Audit Committee without management present.

The Audit Committee is authorised to seek external legal advice and other independent professional advice as it sees fit.

## AUDIT COMMITTEE REPORT

### Focus in 2022

- Oversight of continuous improvement agenda of risk management, internal control and assurance taking into account BEIS proposals.
- Supporting the finance transformation being led by the CFO to enhance capabilities, prioritise controls and governance and support the broader culture change being led by our CEO.
- Reviewing and challenging critical judgements, estimates and disclosures, including adjusted performance measures, particularly as they relate to the ongoing execution of our new strategy, the continuing impact of COVID-19 and an uncertain macro environment.
- Ensuring reporting and disclosures are fair, balanced and understandable throughout the period of change for the Group, and adequately reflect developments in our ESG commitments and FRC disclosure guidelines.
- Implementing recommendations from the review of the Board and Committee effectiveness conducted in FY21 as they relate to the performance of the Audit Committee.
- Oversight of the external auditor and implementation of ongoing enhancements to derive value from the external audit whilst also enhancing audit quality.
- Supporting the Group Internal Audit strategy refresh.

### Looking ahead to 2023

For the coming year, the Committee will continue to support and monitor the Finance team's transformation programme, including the roll-out of the central finance support portal (CFin), and the roll-out of a refreshed Group Internal Audit strategy. Linked to this, the Audit Committee will engage in the development of the Group's total assurance approach, including the establishment of a dedicated Governance, Risk and Control team reporting to the Chief Legal and Corporate Affairs Officer. Regulatory developments will also be high on the agenda for 2023, with the outcome of the BEIS proposals to be taken into consideration, as well as any continuous improvements to our overall reporting (including our Task Force on Climate-Related Financial Disclosures (TCFD)).

## AUDIT COMMITTEE'S ACTIVITIES 2021/22

A summary of the topics covered by the Audit Committee in its meetings during the financial year is detailed below:

| Meeting | Matters discussed and decisions taken |
|---|---|
| November 2021 | • Finance and pensions updates.<br>• FY21 Results overview and accounting estimates and judgements update and recommendations to the Board.<br>• Financial controls self-certification and FY21 attestations update.<br>• Confirmed audit/non-audit service fees.<br>• Internal controls and risk management update, allowing confirmation of internal controls and risk Code compliance.<br>• External and Internal Audit updates and annual review.<br>• Recommended preliminary announcement and Annual Report and Accounts to Board, including the Audit Committee report and risk management disclosure.<br>• Recommended final dividend to the Board.<br>• Recommended reappointment of external auditor to the Board.<br>• Update on FY22 Audit Committee planner.<br>• Audit Committee improvement plan and priorities.<br>• Private discussions with external auditor, Group Internal Audit and CFO. |
| February 2022 | • Finance update.<br>• Reviewed reasonableness of the current intangibles policy.<br>• Update on alternative performance measures (APMs) and subsidiaries' statutory accounts.<br>• Confirmed tax strategy.<br>• FY22 audit plan and update.<br>• External audit effectiveness review, including FY21 learnings to improve ways of working.<br>• FY21 management letter.<br>• Risk and controls assurance – US.<br>• Internal Audit update.<br>• Private discussion with external auditor, Group Internal Audit and CFO. |
| May 2022 | • Update on transfer pricing, including tax settlements.<br>• Review of HY22 Results, including going concern and accounting estimates and judgements.<br>• Financial controls self-certification and HY22 attestations update.<br>• External auditor update.<br>• Recommended half year reporting to the Board, including interim dividends.<br>• Considered audit and non-audit service fees.<br>• Treasury risk management update.<br>• Internal controls and risk management update.<br>• Group Internal Audit update (including Group Internal Audit survey).<br>• Private discussion with external auditor, Group Internal Audit and CFO. |
| September 2022 | • Finance update.<br>• External audit update.<br>• Updates on risk, assurance and Internal Audit.<br>• Risk and controls assurance – pensions.<br>• Reviewed audit and non-audit fees.<br>• Reviewed independence of Audit Committee members.<br>• Private discussion with external auditor Group Internal Audit and CFO. |

## KEY MATTERS CONSIDERED

The Audit Committee considered the appropriateness of the following areas of significant judgement, complexity or estimation in connection with the financial statements:

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| Use of adjusted measures | Non-GAAP or adjusted measures provide an appropriate and useful assessment of business performance and reflect the way the business is managed. They are also used in determining annual and long-term incentives for remuneration, and are widely used by our investors. There is a risk that their inappropriate use could distort the performance of the business. | During the year the conclusions of a detailed review and scrutiny of the proposed use of adjusted measures in FY22 were presented to the Audit Committee. The Committee also reviewed and approved changes to the alternative performance measures (APMs) proposed by management to provide greater clarity on the nature and amount of all adjusting items, together with management's proposals to further align adjusted and GAAP measures.<br><br>Last year, the Audit Committee considered and accepted management's recommendation that restructuring costs associated with the 2021 strategic review will continue to be incurred by the Group post FY21 and are expected to conclude in FY23. The programme is underway and remains on track.<br><br>The Audit Committee reviewed these events alongside the continued guidance from ESMA and previous correspondence with the FRC regarding the treatment of restructuring and agreed that it was appropriate that the implementation of the renewed strategy be treated as a major project restructuring and as an adjusting item until the end of FY22. It also agreed that the Group's Adjusted Performance Measures framework, used for presenting and disclosing the Group results for FY20 and FY21 should continue to apply unchanged during FY22, noting that in FY22 only charges relating to the Group strategic review were eligible for restructuring treatment as an adjusting item.<br><br>Although the framework remained unchanged, the number of APM's used during the year was reduced to be more in line with the number of GAAP measures used. |

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| **Goodwill and intangible asset impairment reviews**<br>**(See note 11 to the financial statements for further information)** | Goodwill and intangible assets form a major part of the Group's balance sheet, and their current valuations must be supported by future prospects. | At both the half year and the full year, the Audit Committee reviewed cash forecasts for the Cash Generating Unit Groupings (CGUGs) that are used to support the Group's goodwill and intangible assets balances. Within this review the potential impacts of climate change were considered. Following these reviews it was concluded that there is significant headroom from the discounted cash flows for each CGUG above the valuation of the goodwill allocated to it.<br><br>The Audit Committee also considered detailed reporting from, and held discussions with, the external auditor. The Audit Committee concluded that there was no requirement to impair goodwill and intangibles outside of those NGP assets previously identified and the sale of the Group's operations in Russia, and that the disclosure of sensitivities was appropriate and on this basis the Committee approved the note disclosure in the financial statements. |

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| Taxation<br>(See notes 7 and 22 to the financial statements for further information) | The Group is subject to taxation in a number of international jurisdictions, requiring significant management judgement in relation to effective tax rates, tax compliance and the reasonableness of tax provisions, which could materially affect the Group's reported results.<br><br>The Group is subject to periodic challenges by local tax authorities on a range of matters and there are uncertain tax positions in relation to three principal matters: transfer pricing audits in Germany, France and the UK; a French Tax Authority challenge in respect of an intra-Group disposal and financing; and the EU Commission's challenge of the UK Controlled Foreign Company (CFC) regime. | The Audit Committee received a detailed update from management at each Committee meeting on the status of ongoing inquiries and tax audits with local authorities; the Group's effective tax rate for the current year; and the level of provision for known and potential liabilities, including the third-party counsel received in developing estimates. In addition, the Audit Committee discussed material positions with the external auditor in support of developing an independent perspective on the positions presented.<br><br>The Audit Committee continued to receive specific progress reports on UK CFC following the EU General Court's decision, French tax litigation and the status of the transfer pricing audits, including settlement proposals on UK, German and French transfer pricing audits, and in light of these considered the reasonableness of provisions and reporting disclosures.<br><br>The Audit Committee continued to consider the appropriateness of items treated as adjusting and concluded that the items satisfied adjusting item criteria on the basis of materiality and nature.<br><br>The Audit Committee reviewed the status of each material tax judgement, including a range of possible outcomes, noted that independent third-party support had been obtained for each judgement and agreed that the level of tax provisions and disclosures was appropriate. |
| Litigation matters and competition investigations | The Group is exposed to litigation matters arising from claimants seeking remedies from the Company or its subsidiary companies. A small number of claims alleging smoking-related health effects remain, as well as NGP-related product litigation in the US only. One claim arising from specific US legislation (Helms-Burton) is ongoing, one element of the US State Settlement agreements remains unresolved, and the Group faces one ESG-related claim. See contingent liabilities on pages 216 to 218. The Group is in the process of appealing three decisions by national Competition Authorities in the EU. | The Audit Committee considered reports from the Group's external lawyers which confirmed that the Group continues to have meritorious defences to a number of actual and threatened legal proceedings. The Audit Committee concluded that risks in respect of these actual and threatened legal proceedings and litigation matters otherwise covered in this report, along with any competition authority proceedings, are appropriately disclosed or provided for in the Group's Annual Report and Accounts. |

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| Going concern and viability statement | The COVID-19 pandemic continues to impact the global economy, and 2022 is characterised by the invasion of Ukraine by Russia, contributing to and exacerbating a global cost-of-living crisis.<br><br>In the context of this global economic uncertainty, the Directors are required to consider whether it is appropriate to prepare the financial statements on a going concern basis and explain how they have assessed the prospects of the Company over a longer period. | Management performed a comprehensive series of stress tests to confirm that the going concern basis and viability statement remain appropriate. These tests are described in the going concern statement on page 92. The tests involved the stress testing of the resilience of the Group to certain changes in trading conditions that may come about as a result of the global economic environment, as well as realisation of other key risks, including climate change.<br><br>The Audit Committee reviewed these tests on operating cash flows, the ongoing resilience of demand and supply, the remaining disposal proceeds from the sale of the Premium Cigar Division, the financial impact of the disposal of the business in Russia, and the impact of the war in Ukraine on the business. The Audit Committee noted the Group's ability to raise funds, with the Group's recent US$ 1 billion bond issuance demonstrating ongoing access to debt financing.<br><br>Together, these points allowed the Audit Committee to form an opinion as to the ability of the Group to remain a going concern from the date of this Annual Report through to 31 March 2024 and make its recommendation to the Board.<br><br>In addition, the Audit Committee also reviewed management's view of the Group's ability to remain viable, for the agreed three-year period, following the forecast realisation of a number of key risks, including the possible impacts of climate change, and concluded that it is appropriate to sign off the Group's viability statement. |
| Revenue recognition | There is a risk that revenue could be overstated through the inclusion of sales which are not in compliance with the Group's revenue recognition policy. | Discussions were held with management and the external auditor which satisfied the Audit Committee that the Group's criteria for revenue recognition continued to be appropriate and that the central monitoring of trade weight at period ends ensured any material breaches to the Group's revenue recognition policy would be both detected and reported to the Audit Committee and, where applicable, disclosed externally. No breaches were found during the year.<br><br>The Audit Committee is satisfied that the level of trade debt has been appropriately valued and that any potential bad debt has been adequately provided for. |

| Focus area | Why this area is significant | How we as an Audit Committee addressed this area |
|---|---|---|
| **Fair, balanced and understandable** | The Board is required to state that the Group's external reporting is fair, balanced and understandable. The Audit Committee is requested by the Board to provide advice to support the assertion. | The Audit Committee received a report from management summarising the processes that had been undertaken to ensure that the Group's external reporting is fair, balanced and understandable. This included, but was not limited to, the following: (i) a full document review by the Disclosure Committee, including ensuring no undue reporting of good news and material informaiton is given due prominence (ii) engagement of a cross-functional group of internal and external subject matter experts and content owners in the preparation and review of materials, including the ELT, Group Corporate Communications, Group Finance, Group Internal Audit, Group Legal, Investor Relations, ESG team and Company Secretariat; (iii) input and advice from appropriate external advisers, including the Company's brokers and external audit challenge and scrutiny; (iv) regular research to identify emerging practice and guidance from relevant regulatory bodies; and (v) regular meetings involving the key contributors to the document, during which specific consideration was given to the fair, balanced and understandable assertion.<br><br>During the year the Audit Committee has continued its review of the use of APMs, including ensuring the appropriate balance of reported and adjusted measures in the Annual report.<br><br>After consideration of the Annual Report against these criteria the Audit Committee recommended to the Board, which accepted the recommendation, that taken as a whole the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's financial position and performance, business model and strategy. |

## GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

Assessing and managing the risks faced by the Group is fundamental to achieving our strategic objectives, safeguarding our stakeholders' interests and protecting the Group from reputational or legal challenges. This is reflected in our risk management framework, which ensures significant risks are identified, managed and monitored.

In accordance with the Code, the Board has overall responsibility for setting the Group's risk appetite, with accountability for maintaining effective risk management and internal control systems then being delegated to the Audit Committee.

The Group's risk management approach is described in the Principal Risks and Uncertainties section on pages 82 to 93 and is designed to manage, rather than eliminate, the significant risks the Group may face. Consequently, our internal controls can only provide reasonable, and not absolute, assurance over our principal risks.

During the year the Board considered the Group's "bottom-up" risk assessment, which included consideration of both current and emerging risks and issues as discussed in the Principal Risks and Uncertainties section on pages 82 to 93.

## MONITORING THE EFFECTIVENESS OF RISK MANAGEMENT

The Audit Committee is responsible for approving the risk management approach on behalf of the Board, and for oversight of its ongoing effectiveness.

The Board and Audit Committee received regular updates throughout the year on the continued development of the Group's risk management and internal control systems, as well as on the results of risk assessments and internal control effectiveness assessments.

The Board and Audit Committee has been informed of, and looked at, all significant whistleblowing reports and reported frauds in the year, and is comfortable that none of these gave rise to evidence that there have been instances of non-compliance with relevant laws and regulations. Specific consideration was given to an allegation made against an employee responsible for the procurement of raw leaf tobacco and noted that no evidence had been found of any breach of controls, processes or procedures.

Throughout the course of the financial year, the Audit Committee has invited first line functions to present on their respective risk management approaches to the risks overseen. This direct dialogue with the Audit Committee provides further assurance to the Audit Committee regarding the effective management of significant risks to the Group.

Reporting provided to the Audit Committee enables the review and monitoring of the effectiveness of our risk management and internal control systems. The Audit Committee has considered and confirmed to the Board that this is in accordance with the recommendations of the Code and that such systems were in place throughout the year and up to the date of the approval of the financial statements.

## INTERNAL AUDIT

Group Internal Audit (GIA) is responsible for providing independent and objective assurance on the adequacy and effectiveness of the risk management and internal controls framework.

During the year GIA performed a risk-based audit programme aligned to the Group's strategic priorities, resulting in relevant recommendations and insights to further strengthen the Group's control framework.

The Audit Committee reviewed reports from GIA at each Audit Committee meeting to monitor the effectiveness of the control framework and considered the effectiveness and results of the audits undertaken by GIA, and monitored management responses to the audit matters raised.

The Audit Committee also met independently with the Director of Assurance and Risk to discuss additional insights.

The Audit Committee reviews the effectiveness of GIA routinely through post-audit surveys and KPI reporting. In addition, in FY22 a periodic internal stakeholder survey was conducted, as well as an external quality assessment in accordance with the best practice guidelines of the Institute of Internal Auditors.

The Audit Committee reviewed and approved the proposed direction, scope and investment required for the GIA Fit For Future Strategy. The strategy was developed using feedback from the FY22 Internal Stakeholder Survey and the External Quality Assessment performed by Deloitte. GIA's key strategic priorities relate to aligning to the wider organisation's developments on integrated assurance, building in-house capabilities to enhance auditing of IT-related risks, leveraging technology for audit planning through data analytics, positioning GIA as a route for talent within the Company and improving reporting and insights sharing. The Audit Committee also reviewed the FY23 GIA plan, including its scope and extent, and confirmed appropriate resources exist to deliver the plan.

## EXTERNAL AUDIT

The Audit Committee is responsible for oversight of EY as the Group's external auditor, agreeing its audit strategy and related work plan, as well as approving its fees. At the Committee's February 2022 meeting, EY set out its external audit plan for the year, which continued to build on its previous experience, EY's continued focus on audit quality and the feedback it received from management, the Board and the Audit Committee. EY provided the Audit Committee with an overview of its evolving audit strategy, tailored to the Group, including its audit risk assessment, Group audit materiality and scope, and the key areas of its proposed audit approach.

The Audit Committee considered the external auditor's feedback, management letter and half year review. EY also provided feedback to relevant Group and local management in a number of debrief sessions and audit close meetings.

The Audit Engagement Letter detailing the provision of statutory audit and half year review services was both considered and approved.

The Audit Committee has had regular private meetings with EY and is satisfied that EY has been given full access and complete transparency by management throughout the year.

### Independence of our external auditor

As part of the continual requirement to ensure the independence and objectivity of EY as our external auditor, the Audit Committee maintains and regularly reviews our Auditor Independence Policy. This policy, which provides clear definitions of services that the external auditor may and may not provide as determined by the FRC's Revised Ethical Standard published in December 2019, can be found on our website at www.imperialbrandsplc.com.

Our Auditor Independence Policy requires that the Group Audit Partner rotates after a maximum of five years (seven years for subsidiary companies). Andrew Walton, our signing audit partner, has just completed his third year. The policy states that EY may only provide non-audit services where those services do not conflict with its independence. It also establishes a formal authorisation process, including tendering for individual non-audit services expected to generate fees in excess of a specified threshold, and prior approval by the Audit Committee for allowable non-audit work that EY may perform. The threshold is currently fixed at £100,000. Guidelines for the recruitment of employees or former employees of EY, and for the recruitment of our employees by EY, are contained in the policy.

During the year EY undertook limited non-audit work, all of which was assurance or attestation-related. This non-audit work was awarded to EY due to its knowledge of the Group and it being deemed best placed to provide effectively the services required. In the current year, non-audit fees were 7% (2021: 5%) of total audit fees (see note 4). EY did not undertake any advisory or consultancy work for the Group. Following the auditor independence reviews during the year, the Audit Committee concluded that the level of non-audit fees is appropriate in the light of the above activities and the Audit Committee does not believe that the objectivity of the external audit has been impaired as a result of this non-audit work.

To ensure compliance with the Auditor Independence Policy, during the year the Audit Committee carried out four auditor independence reviews, including consideration of the remuneration received by EY for audit services, audit-related services and non-audit work. The Audit Committee also considered reports by both management and EY, which did not raise any concerns in respect of EY's independence, and confirmed that EY maintains appropriate internal safeguards to ensure its independence and objectivity. The outcome of these reviews was that performance of the relevant non-audit work by EY was in compliance with the policy and was the most cost-effective way of conducting our business. No conflicts of interest were found to exist between such audit and non-audit work. The Audit Committee therefore confirmed that the Company and Group continue to receive an independent audit service.

### Audit quality

The Board and Audit Committee place great importance on ensuring that the Group receives a high-standard and effective external audit. The key tool in assessing the performance of our external auditor is an audit effectiveness questionnaire. The questionnaire covers audit scope, planning, quality and delivery, challenge and communication, and independence, and is completed by members of the Audit Committee, Logista's Audit Committee and senior managers and finance executives from across the Group. Responses indicated that EY had delivered a high-quality and effective audit, with no pervasive Group-wide concerns identified. Based on its consideration of the responses, together with its own ongoing assessment, for example through the quality of EY's reports to the Audit Committee and the Committee's interaction with the Group Audit Partner, the Audit Committee remains satisfied with the efficiency and effectiveness of the audit.

The Audit Committee noted that the FRC Audit Quality review team did not select our FY21 accounts for review. The Committee also noted that the FRC rated the majority of audits carried out by EY as either good or requiring only limited improvements.

### Audit tender

The external audit was last tendered in 2019. EY was awarded the audit in February 2019, with a 1 October 2019 start date. The next time the audit will be tendered will likely be in 2029, as required by regulation. The Audit Committee continues to review the independence and the quality of the external audit to assess whether a tender should be undertaken in advance of the regulatory requirement.

The Audit Committee recommended to the Board that EY should be reappointed as external auditor at the next AGM.

### Audit fees

In the current year audit fees were £8.2 million (2021: £7.5 million) (see note 4).

### Statement of auditors' responsibilities

EY is responsible for forming an independent opinion on the financial statements of the Group as a whole and on the financial statements of Imperial Brands PLC as presented by the Directors. In addition, it also reports on other elements of the Annual Report as required by legislation or regulation and reports its opinion to members. Further details of EY's opinions start on page 156.

### Statement in relation to disclosure of information to auditors

Each of the Directors in office at the date of approval of this Annual Report confirms that:

- so far as they are aware, there is no relevant audit information (that is, information needed by EY in connection with preparing its report) of which EY is unaware; and
- each has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish EY is aware of that information.

# ANNUAL STATEMENT FROM REMUNERATION COMMITTEE CHAIR

## Membership and meeting attendance

| Members | 11/11/2021 | 11/05/2022 | 23/06/2022 | 15/09/2022 |
|---|---|---|---|---|
| Sue Clark (Chair) | ◆ | ◆ | ◆ | ◆ |
| Thérèse Esperdy | ◆ | ◆ | ◆ | ◆ |
| Diane de Saint Victor | n/a | ◆ | ◆ | ◆ |
| Bob Kunze-Concewitz | ◆ | ◆ | ◆ | ◆ |
| Steven Stanbrook | ◆ | n/a | n/a | n/a |
| Jon Stanton | ◆ | ◆ | ◆ | ◆ |

Diane de Saint Victor joined the Committee on 15 November 2021 and Steven Stanbrook stepped down on 2 February 2022.

## Focus in 2022

- Ensuring remuneration supports the implementation of the Company's revised strategy
- Remuneration and terms for new members of the Executive Leadership Team
- Development and incorporation of ESG strategy into incentive plans
- Review of remuneration consultants advising the Committee
- Wider workforce reward considerations

## Looking ahead to 2023

- Triennial review of the Directors' Remuneration Policy
- Wider workforce reward strategy to ensure alignment with priorities in a time of economic volatility
- Attraction and retention of high-performing individuals in a competitive global market place

## KEY SECTIONS OF THIS REPORT ARE AS FOLLOWS:


Annual Statement 130
Remuneration at a glance 134
Directors' Remuneration Policy (summary) 135
Pay arrangements for FY23 138
Annual Report on Remuneration 139
Remuneration earned for FY22 139
Determination of 2022 Annual Bonus 140
Executive share ownership and Directors' interests 143
Comparison with employees' remuneration 144
CEO pay ratio 145
Remuneration Committee membership and duties 147


## DEAR SHAREHOLDER

On behalf of the Board, I am pleased to present the Directors' Remuneration Report (DRR) for the financial year ended 30 September 2022.

The last year has seen ongoing challenges for businesses across the world, including the continued impact of COVID-19 and the inflationary pressures caused by the war in Ukraine. Despite the many challenges, the Company has delivered against the stretching remuneration targets that we set in the strengthening phase of our five-year strategy to transform into a more sustainable business capable of consistent growth. Our new global Executive Leadership Team (ELT) has worked extremely well together through the year, combining fresh perspectives and experience from a diverse range of global consumer businesses and FMCG backgrounds. In the coming year, the Committee will undertake the triennial review of our Remuneration Policy to ensure that it continues to support the retention and incentivisation of world-class talent and the delivery of our ambitious transformation plan.

I wish to thank the ELT and our entire workforce for their contribution during the year. I would like to pay special tribute to our 600 Ukrainian colleagues, their families and the teams who are working to keep them safe.

As in the prior year, no employees were placed on furlough and the Group did not benefit from any Government aid.

### Supporting our colleagues

In recent months, the Remuneration Committee has carefully monitored the impact of the volatile macroeconomic environment across our global workforce, overseeing a range of initiatives to support those employees. Our "Meet the Board" sessions are a valuable way of having open conversations with colleagues about a wide range of matters, and we have spent time engaging on a range of reward topics including the cost-of-living crisis. A number of targeted actions have been taken to support our colleagues where required:

- Annual salary budgets were determined with a focus on markets where wage inflation lagged price inflation by a significant margin, recognising the disproportionate impact for those on lower incomes. Across the countries we operate in, salary increases have typically ranged from 3% to 9% (excluding higher increases made in countries experiencing hyperinflation), with increases in the UK expected to be approximately 5% or higher for FY23.
- Introduction of a framework where local markets can request the award of one-off payments, accelerated salary payments or exceptional out-of-cycle increases for targeted groups of employees, in particular where inflationary pressures have impacted business continuity.
- Where appropriate, more frequent salary increases were made in countries experiencing hyperinflation.
- Additionally, we have worked to find new roles for our displaced Ukrainian colleagues and ensured the fair treatment of Russian colleagues leaving the business.

The Committee will continue to monitor and review workforce pay and policies over the coming year, to ensure we continue to support our colleagues during this challenging period.

### Alignment to purpose and strategy

Ensuring our Remuneration Policy supports and drives our strategy is a key focus of the Remuneration Committee. Our focus on transformation of brands, markets and culture is guided by our purpose of "forging a path to a healthier future for moments of relaxation and pleasure". Examples of how we put our purpose-led approach into practice are set out on page 4.

During FY22 the business completed a comprehensive review of our overall environmental, social and governance (ESG) strategy to ensure it is fully aligned with our five-year goals, and this is set out on pages 36 to 58. Our ESG priorities reflect issues which are both important business challenges and potential opportunities to make a positive difference. In recent months, the Committee has carefully considered the outcome of this review and will introduce new ESG metrics under the Annual Bonus for FY23. Further details are provided below.

### Remuneration outcomes for FY22

This year's results demonstrate the Group's continued strong delivery against the five-year strategy and the benefit of the additional investment in transforming the business.

Operational and financial delivery has strengthened in a year marked by continued uncertainties. Consumer buying patterns have been disrupted by the global pandemic, and geopolitical events in Russia and Ukraine have caused uncertainty and exacerbated global inflationary pressures.

During the year we disposed of our Russian business to a third party. This disposal was completed and concluded in April 2022. We have therefore adjusted incentive targets for the Annual Bonus and the LTIP in order to exclude the disposed Russian business, including associated direct costs. The approach is in line with the approach we would take for any material disposal of a business during the year. No adjustment was made for the impact of the suspension of operations in Ukraine.

The FY22 Annual Bonus was based on stretching financial measures with 40% based on adjusted operating profit, 20% on adjusted operating cash conversion and 20% on market share. Strategic objectives formed the remaining 20% of the bonus.

Investment initiatives and an increased focus supported a 35 basis points growth in market share in our five priority markets, which reverses a pattern of decline over the past ten years. Adjusted operating cash conversion was 102%, driven by a strong working capital performance. Adjusted operating profit grew 1.8% at constant currency and 1.9% taking into account the adjustment for the disposed Russian business. This performance reflects the increased investment behind the strategic initiatives in line with our five-year plan.

The market share and cash conversion targets were both exceeded, while the adjusted operating profit target was achieved.

The Executive Directors performed exceptionally well against their strategic objectives during the year. For Stefan Bomhard, this included the deployment of our new purpose and behaviours across the business, the delivery of a refreshed NGP strategy operating model, and development of our refreshed ESG strategy. Lukas Paravicini's objectives included key operational efficiency milestones and further deployment of technology-focused finance and integrated reporting solutions. Further detail is shown on page 140.

In aggregate, as a percentage of maximum, Stefan received a bonus of 84% and Lukas earned a bonus of 82.5%. 50% of the bonus will be deferred in Imperial Brands shares for three years. The Committee believes this outcome reflects fairly the performance of the business during the year and the strong base for growth Stefan and Lukas have created since joining the business. No discretion has been applied by the Committee.

As disclosed on his appointment, Imperial Brands agreed to compensate Lukas for a guaranteed bonus he would have received from his previous employer in the amount of US $750,000. This payment was made in December 2021 and has been disclosed in the single total figure table on page 139.

The LTIP award due to vest in February 2023 will vest in part, resulting in 19.83% of the total award vesting. Of the Executive Directors, only Stefan Bomhard participates in this award. No discretion was applied by the Committee in respect of the vesting outcome.

### Meetings held in FY22

In FY22, the Committee met on four occasions and the table below summarises the matters discussed:

| | November 2021 | May 2022 | June 2022 | September 2022 |
|---|---|---|---|---|
| Review of Executive Directors' remuneration dashboards | ◆ | ◆ | | ◆ |
| Approval of FY21 Annual Bonus out-turn | ◆ | | | |
| Approval of 2019-2021 LTIP out-turn | ◆ | | | |
| Approval of FY22 Annual Bonus metrics and weightings | ◆ | | | |
| Approval of FY22 LTIP metrics and weightings | ◆ | | | |
| Approval of DRR | ◆ | | | |
| Review of CEO pay ratio | ◆ | | | |
| Approval of vesting of Share Matching Scheme and Bonus Matching Plan for senior management and FY22 grant | ◆ | | | |
| Approval of operation of Discretionary Share Plan and Sharesave for FY22 | ◆ | | | |
| Review of FY23 bonus plan design | ◆ | ◆ | ◆ | ◆ |
| Discussion on workforce remuneration | | ◆ | | ◆ |
| Review of forecast Annual Bonus out-turn | | ◆ | | |
| Review of forecast LTIP out-turns | | ◆ | | ◆ |
| Discussion on ESG measures and remuneration | | ◆ | ◆ | ◆ |
| Review of ESG measures and targets in incentives | | | ◆ | ◆ |
| Discussion of FY23 Annual Bonus plan | | | | ◆ |
| Approval of base salaries for Executive Leadership Team and Chair's fee | | | | ◆ |
| Review of the Committee's terms of reference | | | | ◆ |

### Environmental, social and governance (ESG)

As noted above, over the last year the Committee has carefully considered all areas of our ESG strategy and how these key priorities could be introduced into our incentive plans for FY23. The Committee considered a broad range of metrics and was mindful that any measures used must be appropriate for the business, reflecting the stage of the business on its ESG journey, and have the ability to be tracked and measured.

We recognise that consumer health is the most important ESG priority for many of our stakeholders. This is a key pillar of our business strategy, which demonstrates our commitment to making a meaningful contribution to harm reduction by offering adult smokers a range of potentially reduced harm products. The Group has refreshed its NGP strategy, focusing on heated tobacco and vapour.

We are also committed to making a distinctive contribution to the environment and have pledged to become a net zero company by 2040, with a series of challenging intermediate objectives to reduce our carbon footprint as set out on page 41. Imperial Brands has been recognised as a 2022 Climate Leader by the *Financial Times* for a second consecutive year, and we are proud to have maintained our position on CDP's climate A list this year.

Reflecting these key priorities, as a first step for FY23 we will introduce two quantitative ESG measures under the Annual Bonus plan, with an overall weighting of 10%. The measures have been selected as areas of high priority for our key stakeholders, including investors and employees.

**Consumer health (5%) –** will be measured by reference to revenue from our next generation products, which offer adult smokers a range of products with the potential of harm reduction.

**Climate change (5%) –** will measure reduction in Scope 1 and 2 $CO_2e$ emissions and energy consumption (total GWh). Scope 1 and 2 emissions, and energy data, are independently assured on an annual basis and reported in our Annual Report and Accounts.

An overall weighting of 80% on financial metrics will be retained and the ESG metric will be incorporated by reducing the weighting of strategic performance objectives. We intend to consider the longer-term approach to ESG as part of the detailed Remuneration Policy review over the coming 12-18 months.

### Implementation for FY23

The Committee reviews remuneration trends and plans for the wider workforce each year and considers this to be important and relevant context for the decisions it makes regarding the Executive Directors and senior managers.

In reviewing salaries this year, the Committee has been mindful of the global inflationary pressures that have been impacting many of our people across the Group. The Company has put in place measures to target support where needed, as described above.

The annual salary review is effective from 1 October 2022. As I mentioned earlier salary increases awarded to employees have typically ranged from

3% to 9% across the markets we operate in (excluding higher increases made in countries experiencing hyperinflation), with increases in the UK expected to be approximately 5% or higher for FY23.

In setting the salary for the CEO, the Committee took into consideration global inflationary pressures, the approach taken for colleagues, the need to balance restraint with fair reward for contribution, and the impact on total remuneration. After careful consideration, the Committee decided to award a salary increase of 3% to Stefan, in the light of his exceptional contribution during the year. In taking this decision, the Committee considered the comparison with wider workforce increases noting that the increase was below the average increase for the UK workforce. His new salary is £1,339,747 pa.

The CFO was appointed to the Board in May 2021, and at that time it was agreed that his salary would not be adjusted before 1 January 2023. At the end of the year, the Committee did however take the opportunity to review both Directors' salaries and after careful consideration concluded that a 4% increase be awarded to Lukas, effective from 1 January 2023.

This increase reflects his strong contribution and impact since joining the Company and acknowledges that he will not have received an increase for over 18 months. Lukas' new salary will be £759,200 pa. The increase for Lukas is also below the average increase for the UK workforce.

FY23 is an important year of delivery as we move from the investment and foundation-building phase of our strategy into the "improving returns" phase.

At the same time, the Committee recognised that it is a more uncertain and challenging macroeconomic and geopolitical environment.

The Committee considered carefully the Annual Bonus measures for FY23 and concluded that the financial metrics will remain the same as those for FY22: adjusted operating profit at constant currency (40% weighting), adjusted operating cash conversion (20% weighting) and market share growth (20% weighting). Individual/strategic objectives will reduce from a 20% weighting to 10% and the new ESG measure of 10% will be introduced as detailed above. The financial targets will be aligned with the guidance provided at our Capital Markets Day and in our latest trading statements.

The FY23 LTIP will be granted in February 2023. As the business reached its target leverage levels in FY22, net debt/EBITDA will be removed as a measure for the FY23 plan and its 20% weighting reallocated to TSR. The measures for the FY23 award will therefore be: adjusted EPS growth at constant currency (40% weighting), return on invested capital (20% weighting) and relative TSR (40% weighting). The targets are detailed on page 138.

### Chair fees

The Committee reviewed and approved a 3% fee increase for the Company Chair. Thérèse Esperdy's fee will be £638,729 pa from 1 October 2022.

### Consideration of shareholder views

We are very grateful for the time shareholders spent with us to discuss plans prior to the 2022 AGM, and were delighted with the strong support we received for the Directors' Remuneration Report (95.93%). During the course of the year, we continued to engage with shareholders to understand their views on our proposals to include ESG measures in our incentive plans. The feedback received was very valuable and has helped inform the proposals shared in this report.

In the coming year, we will undertake the triennial review of our current Remuneration Policy (approved by 95.3% of shareholders at the 2021 AGM) to ensure that it remains appropriate and continues to support the retention and incentivisation of a world-class executive team. This will involve engagement with a range of key stakeholders and we will consult with shareholders on any material changes proposed.

### Consideration of colleagues' views

The Committee has been directly involved in the Board's work during the year on workforce engagement which is described in detail on page 107. Our "Meet the Board" sessions are a valuable way of having open conversations with colleagues about a wide range of matters, which have included the role of the Board in decision-making, our strategy, the ESG agenda, our purpose, vision and culture, and diversity, equity and inclusion. We have also explored the topic of reward, giving participants the opportunity to learn about how the Committee aligns executive reward with the wider workforce and to understand their views on reward at Imperial Brands. We also spent time answering their questions on a range of reward topics covering attraction and retention, flexible working practices and the cost-of-living crisis. I have been encouraged by the level of openness, engagement and interest shown by our colleagues, and would like to thank them for their valued contribution.

### Remuneration Committee advisers

During the year, the Committee undertook a competitive tender of its advisers, following which Deloitte LLP (Deloitte) was appointed. The process involved submission of written proposals, followed by shortlisted candidates being interviewed by members of the Committee. The Committee selected and appointed Deloitte with effect from February 2022. Further details are provided on page 148.

### Conclusion

As Imperial Brands continues to deliver on its five-year strategy and to embed its new Purpose, Vision and Behaviours, we strongly believe that this business has great potential to grow value for all its stakeholders. In the coming year, the Committee will continue to support management in achieving its ambitious objectives, while listening closely to all our key stakeholders and acting thoughtfully to meet their evolving expectations. Should any shareholder wish to contact me or my Committee members, please in the first instance write to John Downing, Company Secretary, at IR@impbrands.com. We hope to have your support at the upcoming AGM.

**Sue Clark**
Chair of the Remuneration Committee

# REMUNERATION AT A GLANCE

## OUR EXECUTIVE PAY PRINCIPLES

- To attract and retain the very best global talent
- To reward executives well for maximising shareholder returns sustainably and delivering long-term quality growth that benefits all our stakeholders
- To motivate executives to consistently perform to the best of their ability
- To reinforce the behaviours that support our values
- To align executive reward with the experience of our shareholders through encouraging share ownership and an "ownership" mindset
- To balance restraint with fair reward for contribution, in the way we reward executives, as we do for the wider workforce

## OUR APPROACH TO REWARDING EXECUTIVE DIRECTORS IN 2023

### Our strategic priorities

### Measuring performance

Annual Bonus:

- Adjusted operating profit growth at constant currency (40%)
- Adjusted operating cash conversion (20%)
- Market share growth (20%)
- Strategic/individual (10%)
- Climate change, consumer health (10%)

LTIP:

- Adjusted EPS growth at constant currency (40%)
- Return on invested capital (ROIC) (20%)
- Relative TSR (40%)

## EXECUTIVE DIRECTORS' VARIABLE REMUNERATION OUTCOMES FOR 2022

| | | Maximum % of bonus/ LTIP | Out-turn as a % of maximum bonus/ LTIP | % of weighting achieved |
|---|---|---|---|---|
| Annual Bonus | Adjusted operating profit growth at constant currency | 40% | 25% | 63% |
| | Adjusted operating cash conversion | 20% | 20% | 100% |
| | Weighted market share growth | 20% | 20% | 100% |
| | Strategic/individual – Stefan Bomhard | 20% | 19% | 95% |
| | Strategic/individual – Lukas Paravicini | 20% | 17.5% | 87.5% |
| Long-Term Incentive Plan[1] | Adjusted EPS growth at constant currency | 40% | 0% | 0% |
| | Adjusted net revenue growth at constant currency | 40% | 37.08% | 14.83% |
| | Relative TSR | 20% | 25% | 5% |

1. In respect of Stefan Bomhard only.

## TOTAL SINGLE FIGURE IN 2022

| (£,000) | Stefan Bomhard | Lukas Paravicini |
|---|---|---|
| Base salary | 1,301 | 730 |
| Benefits and pension | 199 | 117 |
| Total fixed pay | 1,500 | 847 |
| Annual Bonus | 2,185 | 1,205 |
| LTIP[1] | 2,022 | 0 |
| Other[2] | 0 | 566 |
| Total remuneration | 5,707 | 2,618 |

1. Includes FY20 LTIP and Recruitment Award tranches 3 & 4 of 4.
2. Buyout from previous employer.

## DIRECTORS' REMUNERATION POLICY (SUMMARY)

There are no changes proposed to our Directors' Remuneration Policy approved by shareholders at our AGM held on 3 February 2021, which is intended to be in place for three years, and a summary of which is set out below. It does not replace or override the full approved policy, which is available on our website within the 2020 Annual Report and Accounts.

| Element | Purpose | Operation | Maximum opportunity |
|---|---|---|---|
| Salary | Attract and retain high-performing individuals, reflecting market value of the role and the Executive Director's skills, experience and performance. | Reviewed, but not necessarily increased, annually by the Committee taking into account Company performance as well as each Executive Director's performance together with changes in role and responsibility.<br>Salary increases, if any, are generally effective from 1 October.<br>The Committee considers pay data for UK listed companies closest to the Company by FTSE ranking (and excluding those in the financial services sector). These comparators serve to define a "playing field" within which an individual's reward needs to be positioned. In determining individual remuneration, the primary factors taken into account are individual performance, the scale of the challenges intrinsic to that individual's role, changes in role, their ability and experience. The Committee also considers general increases for the wider workforce, with a focus on increases in the country in which the Executive Director is based. | Whilst there is no maximum salary or maximum increase in salary, the Committee would only set a salary which exceeded the top quartile of salaries of the comparator group in unforeseen and exceptional circumstances. |
| Pension | Provision of market-competitive pension aligned to workforce. | Pension provision for Executive Directors is provided in line with other employees through the Imperial Tobacco Pension Fund in the UK (the Fund). Executive Directors are offered membership of the defined contribution section. Executives have the option to receive a cash supplement in lieu of membership of the Fund, or in lieu of accrual on pensionable salary above the Fund's earnings cap, or in lieu of future service accrual.<br>The rules of the Fund detail the pension benefits which members can receive on retirement, death or leaving service.<br>The Committee may amend the form of any Executive Director's pension arrangements in response to changes in pensions legislation or similar developments, so long as any amendment does not increase the cost to the Company of an Executive Director's pension provision. | Executive Directors receive a workforce aligned pension rate (currently 14% of salary). |
| Benefits | Competitive benefits taking into account market value of role and benefits across the workforce. | Benefits include provision of a company car (or cash allowance in lieu), health insurance, life insurance and income protection insurance which are provided directly or through the Company's pension scheme. Other benefits, including expatriate or relocation arrangements, may also be provided on the basis that they are also offered more widely across the Company or are necessary in order to be competitive locally.<br>Reasonable business-related expenses will be reimbursed including any consequential tax arising. | The level of benefit provision is fixed although the value may vary depending on the cost of providing such provisions. |
| Annual Bonus Plan | Incentivise delivery of Group strategic objectives and enhance performance, including against the indicators we use to measure our performance. | The Annual Bonus will be subject to the relevant performance measures set by the Committee usually at the start of each year to reflect the Group's KPIs at that time. The measures may be a balance of financial and non-financial, but with the expectation that the majority of the Annual Bonus will be subject to quantifiable financial measures. | 200% of base salary or such lower sum as determined by the Committee. |

| Element | Purpose | Operation | Maximum opportunity |
|---|---|---|---|
| Annual Bonus Plan – continued | | Performance below the threshold results in zero payment. Payments rise from zero to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets.<br><br>Half of any Annual Bonus earned is deferred into an award over shares which vests after a minimum of three years, with the other half paid in cash. These awards are forfeitable if the Executive Director resigns voluntarily or is dismissed for cause.<br><br>Dividend roll-up may apply to any element of an annual bonus deferred into an award over shares. Any such dividend roll-up may be paid in additional shares (or, exceptionally, cash), and may assume dividend reinvestment.<br><br>Malus and clawback provisions are in place. The deferred shares are not subject to performance conditions. | |
| Long-Term Incentive Plan | Incentivise long-term Group performance in line with the Group's strategic objectives, including against the indicators we use to measure our performance and long-term shareholder returns.<br><br>Align Executive Directors' interests with those of shareholders. | Awards have a performance period normally of three financial years starting at the beginning of the financial year in which the award is made. Performance measures may include financial, non-financial or value creation (e.g. TSR) conditions as determined by the Committee normally before each grant to align with the strategic priorities of the business at that time. In normal circumstances, at least 70% of the LTIP award will be subject to financial and/or value creation measures.<br><br>Malus and clawback provisions are in place.<br><br>Executive Directors are ordinarily required to retain the net-of-tax number of vested LTIP award shares for a period of two years after vesting. | CEO: 350% of base salary. Other Executive Directors: 250% of base salary or such lower sum as determined by the Committee.<br><br>LTIP awards may include additional shares (or, exceptionally, cash) equivalent to the value of the dividend roll-up, and which may assume dividend reinvestment. |
| All-employee arrangements | Provision of market-competitive arrangements aligned to workforce. | Executive Directors may participate in any all-employee arrangements established and operated by the Company, on the same basis as other Group employees.<br><br>The Company currently operates a savings-related option plan for the benefit of its worldwide employees, and in which Executive Directors are eligible to participate. | In accordance with the limits applicable to the relevant all-employee arrangements. |
| Shareholding guideline | Align Executive Directors' interests with long-term interests of shareholders. | Executive Directors are expected to build a holding in the Company's shares to a minimum value broadly equivalent to 300% of gross base salary over a five-year period from date of appointment in role. For Executive Directors there is an additional requirement to hold shares after cessation of employment. The requirement is to hold shares to the value of the shareholding guideline (i.e. 300% of salary or the existing shareholding if lower at the time) for a period of one year, with the requirement reducing to half the shareholding guideline for the second year. Progress towards the shareholding guideline is monitored on an annual basis and the Committee will consider any necessary sanctions required for non-compliance. | No maximum holding but requirement to build to a minimum value broadly equivalent to 300% of gross base salary. |

## EXECUTIVE DIRECTORS' SERVICE AGREEMENTS

| Executive Directors | Date of contract | Expiry date | Compensation on termination following a change of control |
|---|---|---|---|
| Stefan Bomhard | 31 January 2020[1] | Terminable on 12 months' notice | No provisions |
| Lukas Paravicini | 11 April 2021[2] | Terminable on 12 months' notice | No provisions |

1. Service agreement dated 31 January 2020 with a start date of 1 July 2020.
2. Service agreement dated 11 April 2021 with a start date of 1 May 2021.

## POLICY FOR THE CHAIR AND NON-EXECUTIVE DIRECTORS

| Element | Purpose and link to strategy | Operation | Maximum opportunity |
|---|---|---|---|
| Fees | Attract and retain high-performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders. | • Reviewed, but not necessarily increased, annually by the Board<br>• Fee increases, if applicable, are normally effective from 1 October<br>• The Board considers fee data at comparator companies of similar scale<br>• The Senior Independent Director and the chairs of the Audit and Remuneration Committees receive additional fees. Additional fees are paid for Remuneration and Audit Committee memberships. An allowance is paid when regular intercontinental travel is required<br>• Higher fees may be paid to a Non-Executive Director should they be required to assume executive duties on a temporary basis<br>• No eligibility for annual bonus, retirement benefits or to participate in the Group's employee share plans | No prescribed maximum annual increase.<br>Aggregate annual fees limited to £2.0 million by Articles of Association. |
| Benefits | Reimbursement of business-related expenses. | • Travel to the Company's registered office is recognised as a taxable benefit<br>• To the extent that any other reasonable business-related expenses are recognised as a taxable benefit, these will be reimbursed at cost (including any consequential tax arising)<br>• Reasonable benefits may be provided from time to time on a case-by-case basis | Grossed-up costs. |

## CHAIR AND NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

The Chair and Non-Executive Directors do not have service agreements, but the terms of their appointment, including the time commitment expected, are recorded in letters of appointment which are available for viewing at the Company's registered office during normal business hours, and both prior to and at the AGM.

In line with the Board's annual review policy, the Chair's and Non-Executive Directors' terms of appointment were reviewed and confirmed by the Board on 1 February 2022. There are no provisions regarding notice periods in their letters of appointment, which state that the Chair and Non-Executive Directors will only receive payment until the date their appointment ends and, therefore, no compensation is payable on termination. Under the terms of the Company's Articles of Association, all Non-Executive Directors are subject to annual re-election by shareholders.

## PAY ARRANGEMENTS FOR 2023

### Stefan Bomhard

### Lukas Paravicini

The table below summarises how we intend to apply the main areas of our Directors' Remuneration Policy for FY23.

| Element | Implementation |
|---|---|
| **Salary**<br>Attract and retain high-performing individuals, reflecting market value of the role and the Executive Director's skills, experience and performance. | The CEO's salary was increased by 3% on 1 October 2022 to £1,339,747 pa. The CFO's salary will increase by 4% to £759,200 pa on 1 January 2023.. |
| **Annual Bonus**<br>Maximum opportunity is 200% of base salary.<br><br>50% deferred into an award of shares for three years, which is forfeitable if the Executive Director resigns voluntarily or is dismissed for cause. Malus and clawback provisions will apply. | No change to maximum opportunity.<br><br>Measures and weightings:<br>• Adjusted operating profit growth at constant currency 40%<br>• Adjusted operating cash conversion 20%<br>• Market share growth 20%<br>• ESG – climate change (Scope 1 and 2 $CO_2e$ emissions / energy consumption) and consumer health (NGP revenue) 10%<br>• Strategic/individual 10%<br><br>Underlying targets are commercially sensitive and will be fully disclosed in next year's Annual Report. |
| **LTIP**<br>Maximum award size: CEO: 350% of base salary, CFO 250% of base salary.<br><br>Awards have a performance period of three financial years starting at the beginning of the financial year in which the award is made. Performance measures may include financial, non-financial or value creation conditions.<br><br>Malus and clawback provisions are in place.<br><br>Executive Directors are ordinarily required to retain the net-of-tax number of vested LTIP award shares for a period of two years after vesting. | No change to maximum opportunity.<br><br>Measures, weightings and targets:<br>• Adjusted EPS growth at constant currency (40%). Cut in 4.4% – max 6.3%<br>• Return on invested capital (ROIC) (20%). Cut in 20.2% – max 21.0%<br>• Relative TSR against a group of FMCG companies (40%). Cut in at median – max upper quartile.<br>Cut in would deliver a 25% pay out with a straight-line pro-rata to 100% payout at maximum.<br><br>Should the Company be acquired the performance period would end on the date of acquisition. Any outstanding awards would vest on a time-prorated basis subject to the achievement of the applicable performance criteria. |
| **Chair and Non-Executive Directors' fees**<br>Attract and retain high-performing individuals. Portion of fees applied to purchase of shares to align interests with those of shareholders. | With effect from 1 October 2022:<br>• Chair's fee will increase by 3% from £620,125 to £638,729 pa<br>• NED base fee will increase by approximately 3% from £ £81,500 to £83,945 pa<br>• Senior Independent Director and chairs of the Remuneration and Audit Committees' fees will increase by approximately 1.9% from £27,000 to £27,500 pa<br>• Committee membership fees will remain at £5,500 pa. |
| **Shareholding requirement**<br>Align Executive Directors' interests with long-term interests of shareholders. | 300% of base salary. Requirement to hold shares after cessation of employment to the value of the shareholding guideline (i.e. 300% or the existing shareholding if lower at the time) for a period of one year, with the requirement reducing to half the shareholding guideline for the second year. |

# ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration has been split into the following sections.

1. The remuneration earned by our Directors for the financial year ended 30 September 2022
2. Details of share awards granted, share interests held and historical CEO total single figure versus shareholder returns
3. How Directors' remuneration compares with employee pay including the CEO pay ratio, our relative spend on pay and current dilution
4. Remuneration Committee membership and work undertaken during the year, details of advice received and consideration of shareholders' views

## 1. REMUNERATION EARNED BY OUR DIRECTORS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2022

Single Total Figure of Remuneration for each Director (Audited)

| Executive Directors | Year | Salary £'000 | Benefits £'000[1] | Pension £'000[2] | Total fixed pay | Annual bonus £'000[3] | LTIP £'000[4] | Other £'000[5] | Total variable pay | Total pay |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2022** | **1,301** | **17** | **182** | **1,500** | **2,185** | **2,022** | **–** | **4,207** | **5,707** |
| Stefan Bomhard | 2021 | 1,269 | 17 | 177 | 1,463 | 1,627 | 366 | – | 1,993 | 3,456 |
| | **2022** | **730** | **15** | **102** | **847** | **1,205** | **–** | **566** | **1,771** | **2,618** |
| Lukas Paravicini | 2021 | 304 | 6 | 43 | 353 | 353 | – | – | 353 | 706 |
| Total | **2022** | **2,031** | **32** | **284** | **2,347** | **3,390** | **2,022** | **566** | **5,978** | **8,325** |
| Total | 2021 | 1,573 | 23 | 220 | 1,816 | 1,980 | 366 | – | 2,346 | 4,162 |

Notes
1. Each individual received an annual car allowance of £15,000; Stefan Bomhard received private medical insurance and Lukas Paravicini received health cash plan.
2. Each individual received a cash supplement of 14% of salary in lieu of membership of the pension fund.
3. Annual bonus for the year ended 30 September 2022. Half of the gross value is deferred into an award over shares for three years; no further performance conditions apply.
4. For Stefan Bomhard, LTIP also represents the value of the FY20-22 LTIP awards whose performance period ended 30 September 2022. As these awards do not vest until February 2023 they are based on a share price of £18.73, being the three-month average to 30 September 2022, and an estimate of dividend roll-up based on announced dividend payable on 31 December 2022. For Stefan Bomhard, LTIP also represents the third and fourth tranches of the Recruitment Award which vested on 11 April 2022 on a share price of £16.90. Of the values shown, £512,791 and £42,352 is attributable to share price growth under the FY20 LTIP and Recruitment Award, respectively. The 2021 LTIP value represents the first tranche of the Recruitment Award which vested on 12 April 2021, and has been restated to reflect the actual dividend roll-up applying to this award.
5. For Lukas Paravicini 'Other' represents the buyout of a guaranteed bonus he would have received from his previous employer.

| | Fees £'000 | | Taxable benefits[1] | | Total | |
|---|---|---|---|---|---|---|
| Non-Executive Directors | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| Thérèse Esperdy | 620 | 605 | 14 | – | 634 | 605 |
| Sue Clark[2] | 141 | 138 | 2 | – | 143 | 138 |
| Diane de Saint Victor[3] | 77 | – | 3 | – | 80 | – |
| Ngozi Edozien[3 4] | 87 | – | 17 | – | 104 | – |
| Alan Johnson[5] | 87 | 64 | 3 | – | 90 | 64 |
| Bob Kunze-Concewitz | 87 | 78 | 3 | – | 90 | 78 |
| Simon Langelier | 87 | 85 | 3 | – | 90 | 85 |
| Pierre-Jean Sivignon[6] | - | 58 | - | – | - | 58 |
| Steven Stanbrook[7] | 36 | 103 | 0.4 | – | 36 | 103 |
| Jon Stanton[8] | 114 | 112 | 1 | – | 115 | 112 |
| Total | 1,336 | 1,243 | 46 | – | 1,382 | 1,243 |

Notes
1. Benefits in kind for Non-Executive Directors relate to the reimbursement of travelling expenses to meetings held at the Company's registered office.
2. Includes payments in respect of Senior Independent Director and Chair of the Remuneration Committee fees of £27,000 respectively pa.
3. Diane de Saint Victor and Ngozi Edozien were appointed to the Board on 15 November 2021.
4. Includes a payment in respect of a non-European travel allowance of £12,000 pa in recognition of the extra time commitment required for travel.
5. Alan Johnson was appointed to the Board on 1 January 2021.
6. Pierre-Jean Sivignon stepped down from the Board on 4 June 2021.
7. Steven Stanbrook stepped down from the Board on 2 February 2022. Includes a payment in respect of Workforce Engagement Director of £5,500 pa and a non-European travel allowance of £12,000 pa in recognition of the extra time commitment required for travel.
8. Includes payment in respect of chair of the Audit Committee fees of £27,000 pa.

The aggregate remuneration of all Executive and Non-Executive Directors under salary, fees, benefits, cash supplements in lieu of pensions, Annual Bonus, LTIP was £9,708k (2021 restated: £6,715k).

No Director is eligible to participate in the defined benefit pension fund. Each Director eligible for membership of the defined contribution pension fund has opted to receive a cash supplement in lieu and therefore, no pension disclosure is required.

### Determination of 2022 Annual Bonus (Audited)

The 2022 Annual Bonus was based on a scorecard of measures. Details of the measures, their weightings, targets and extent of achievement are set out in the table below.

| Measure | Weighting | Cut in | Target | Max | Achievement | Pay-out |
|---|---|---|---|---|---|---|
| Adjusted operating profit at constant currency | 40% | 1.0% | 1.8% | 3.0% | 1.9% | 25% |
| Adjusted operating cash conversion | 20% | 87% | 93% | 97% | 102% | 20% |
| Weighted market share | 20% | -2bps | +2bps | +7bps | 35bps | 20% |
| Strategic/individual – Stefan Bomhard | 20% | – | – | – | 95% | 19% |
| Strategic/individual – Lukas Paravicini | 20% | – | – | – | 87.5% | 17.5% |
| Total bonus Stefan Bomhard | 100% | | | | | 84% of max |
| Total bonus Lukas Paravicini | 100% | | | | | 82.5% of max |

The Committee set the following strategic goals for the Executive Directors:

| | Strategic/individual measures and targets | Performance assessment highlighting key achievements |
|---|---|---|
| Stefan Bomhard | • Deploy new Purpose, Vision, Behaviours and Operating Model (10%) | • Significant senior leader investment with impact measured through Top 500 Pulse Survey which showed:<br>- Overall engagement score top quintile versus other global organisations.<br>- 93% fully understand our Behaviours and what they mean for them in their role.<br>- 91% understand our Purpose, Vision, and Strategy and how we will achieve them.<br>• High performing ELT in place and operating as a committed and cohesive team.<br>• Substantial investment in series of immersion and development events for every employee across the 120 markets. |
| | • Formulate and start to deploy rejuvenated ESG strategy (5%) | • ESG Strategy launched and in progress, with clear ambitions, sponsors, and owners in place.<br>• People and Planet Strategy launched to whole organisation.<br>• Enhanced ESG reporting to stakeholders including an ESG focused webinar for investors.<br>• Updated SBTi in line with the 1.5C Net Zero by 2040 commitment.<br>• Strengthened governance, agreed by ESG Committee and endorsed by Board. |
| | • Qualify a sustainable NGP proposition (5%) | • NGP Pilots executed in line with timelines with all metrics ahead of target.<br>• New consumer proposition for both Blu and Pulze resonating strongly with consumers.<br>• Blu 2.0 rolled out in France ahead of schedule.<br>• Launch of disposables through an agile team. |
| **Total payout as a % of maximum bonus: 19%** | | |
| Lukas Paravicini | • Drive shareholder value (10%) | • Strategy delivering strong Free Cash Flow for FY22 above target levels.<br>• Group ERP Strategy developed to implement industry standard, integrated, end-to-end commercial and manufacturing processes, data and technology globally. Strategy approved by Board.<br>  • ERP Programme Director and Leadership Team appointed.<br>  • Vendor partnerships finalised.<br>  • Robust governance in place, project mobilisation and first wave implementation commenced.<br>  • CFin (Finance SAP/S4 Hana) Solution deployment commenced and in budget.<br>• Strengthening of cybersecurity with 13 key sites all upgraded to cautious risk levels of security.<br>• Acceleration of planned FY23 activities providing improved cyber security to remaining sites including 'Forescout' Network Access Controls, perimeter firewalls, autopilot devices enrolments, partner VPN improvements and Azure cloud server migrations for visibility and patching. |

| | Strategic/individual measures and targets | Performance assessment highlighting key achievements |
|---|---|---|
| | • Create efficient operations (10%) | • New Finance and IT Operating model, supporting Group strategy, designed and deployment well underway.<br>• Extended Financial Shared Services, providing top quartile transactional scope, to all key markets.<br>• Increased Financial Shared Services scope to include value-add Reporting, Tax and Statutory and Risk and Control Compliance services with new roles based in and first reports provided from Krakow, Poland.<br>• Building on Financial Shared Service created Global Business Service (GBS), as the Group's shared service platform, with GBS IT and Data Services roll-out having commenced including new IT roles based in Sofia, Bulgaria.<br>• In market, consumer and customer centric Finance and IT organisation designed and in consultation for key markets. |
| **Total payout as a % of maximum bonus: 17.5%** | | |

### Individual Annual Bonus payments:

| | Total annual bonus £'000 | |
|---|---|---|
| Executive Directors | Maximum | Actual[1] |
| Stefan Bomhard | £2,601 | £2,185 |
| Lukas Paravicini | £1,460 | £1,205 |

Notes
1. Half of the bonus will be deferred into an award over shares.

### Long-Term Incentive Plan awards vesting (Audited)

Performance awards vesting in February 2023 are based on performance measured over the three-year period ended 30 September 2022. Of the current Directors only Stefan Bomhard participated in this LTIP cycle.

| Measure | Weighting | Cut-in (25% vesting) | Target (60% vesting) | Maximum (100% vesting) | Actual performance | Percentage of award vesting |
|---|---|---|---|---|---|---|
| Adjusted EPS growth at constant currency (average annual growth) | 40% | 2.00% | 3.87% | 6.00% | 0.57% | 0% |
| Adjusted net revenue growth at constant currency (average annual growth) | 40% | 1.00% | 2.40% | 4.00% | 1.48% | 14.83% |
| Relative TSR (return over three financial years) | 20% | Median | n/a | Upper quartile | 13/25 | 5% |
| Achievement | | | | | | 19.83% |

The TSR measure compared the Company's performance against the following companies: Altria Group, Anheuser-Busch InBev, Beiersdorf, British American Tobacco, Brown-Forman, Carlsberg, Clorox, Constellation Brands, Diageo, Heineken, Henkel, Japan Tobacco, Kimberly-Clark, Kirin Holdings, L'Oréal, Monster Beverage, Pernod Ricard, PepsiCo, Philip Morris International, Procter & Gamble, Reckitt Benckiser Group, Swedish Match, Unicharm and Unilever PLC.

Vested awards granted for FY21 onwards are subject to a two-year holding period.

### Recruitment Award vesting during the year ended 30 September 2022

In July 2020, Stefan Bomhard was granted a Recruitment Award to facilitate his recruitment as CEO and to replace certain outstanding awards granted to him by his previous employer, which were forfeited when he joined the Company. Full details of the Recruitment Award were disclosed in our 2020 DRR, but in summary Stefan was granted 116,921 shares set by reference to the value of the forfeited awards (£1,793,568). To replicate the terms of the forfeited awards, the Recruitment Award was split into four tranches, vesting in April 2021 and April 2022. Vesting of each tranche of the Recruitment Award is subject to the extent to which the original performance conditions applicable to the forfeited awards are met over the original performance period. The third and fourth tranches of the Recruitment Award were capable of vesting on 11 April 2022, and the final vesting outcome was 40%. Full details of the vesting of the forfeited award are disclosed in Inchcape Plc's Annual Report and Accounts 2021. 47,899 shares were granted under the third and fourth tranches of the Recruitment Award and the number of shares vesting (including dividend roll-up) was 24,695 at a value of £417,346.

### Payments for loss of office and payments to former Directors (Audited)

Oliver Tant stepped down from the Board on 18 May 2021 and retired on 4 August 2021. As disclosed last year, his outstanding LTIP awards remained eligible to vest on their normal vesting dates, subject to their original performance conditions and prorated to reflect the period of service rendered. The LTIP award due to vest in February 2023 will vest in part resulting in 19.83% of the total award vesting.

## 2. DETAILS OF SHARE AWARDS GRANTED, SHARE INTERESTS HELD AND HISTORICAL CEO TOTAL SINGLE FIGURE VERSUS SHAREHOLDER RETURNS

### Performance awards granted during the year (Audited)

When determining the Directors' awards, the Committee took into account the prevailing share price performance over the year and the number of shares awarded as a result.

| | Date of grant | Share price[1] | Number of nil-cost options | Face value | Amount of base salary | End of performance period |
|---|---|---|---|---|---|---|
| Stefan Bomhard | 15 February 2022 | £17.81 | 255,616 | £4,552,521 | 350% | 30 September 2024 |
| Lukas Paravicini | 15 February 2022 | £17.81 | 102,470 | £1,824,991 | 250% | 30 September 2024 |

1. Valued using the closing share price the trading day prior to grant

The targets for the above performance awards are as follows:

| | | Minimum performance (25% vesting) | Maximum performance (100% vesting) |
|---|---|---|---|
| Measure | Weight | Target | Target |
| Adjusted EPS growth at constant currency | 40% | 3.7% | 5.6% or higher |
| Adjusted net debt/EBITDA (for FY24) | 20% | 1.46x | 1.28x or lower |
| Return on invested capital (ROIC) (average annual) | 20% | 18.7% | 19.5% or higher |
| Relative TSR | 20% | Median | Upper quartile |

Adjusted net debt/EBITDA measure – The level of the gearing criterion assumes an additional shareholder distribution will be made either via share buybacks and/or special dividends during the period in line with the Group's capital allocation policy. To the extent the shareholder distribution is increased above the assumed level during the period, there is an agreed formula to raise the gearing target accordingly so as to incentivise incremental shareholder returns during the period. Similarly, if the shareholder distribution is reduced, the target gearing will be lowered. This will reinforce alignment of this measure to the Group's capital allocation policy and shareholder value creation.

The TSR comparator group comprises the following companies – Altria Group, Anheuser Busch Inbev, British American Tobacco, Brown-Forman, Carlsberg B, Carnival, Clorox, Constellation Brands, Diageo, Heineken, Henkel, Japan Tobacco, Kimberly-Clark, Kirin Holdings, L'Oreal, Monster Beverage, Pernod Ricard, PepsiCo, Philip Morris International, Procter & Gamble, Reckitt, Swedish Match, Unicharm, and Unilever.

Each measure operates independently and is capable of vesting regardless of the Company's performance in respect of the other metrics. The Committee retains discretion to adjust up or down including to zero the number of shares that vest taking into account a number of factors including personal or corporate performance and circumstances that were unforeseen at the date of grant.

## SHARE INTERESTS AND INCENTIVES (AUDITED)

| | Shares held at earlier of 30 September 2022 and leaving date | | Dividends reinvested post year end | Conditional awards and options held at earlier of 30 September 2022 and leaving date | | | | |
|---|---|---|---|---|---|---|---|---|
| | Owned outright | Subject to a holding period | Owned outright | Awards unvested and subject to performance conditions | Awards unvested and subject to continued employment | Options unvested and subject to continued employment | Vested but not exercised | Options exercised during the year |
| **Executive Directors** | | | | | | | | |
| Stefan Bomhard | 3,930 | 29,419 | 338 | 871,754 | 51,926 | 687 | – | 48,242 |
| Lukas Paravicini | – | – | – | 215,543 | 11,281 | – | – | – |
| **Non-Executive Directors** | | | | | | | | |
| Thérèse Esperdy[1] | 37,787 | – | – | – | – | – | – | – |
| Sue Clark | 6,506 | – | 13 | – | – | – | – | – |
| Diane de Saint Victor | 252 | – | – | – | – | – | – | – |
| Ngozi Edozien | 252 | – | – | – | – | – | – | – |
| Alan Johnson | 586 | – | 3 | – | – | – | – | – |
| Bob Kunze-Concewitz | 50,630 | – | – | – | – | – | – | – |
| Simon Langelier | 26,101 | – | 19 | – | – | – | – | – |
| Steven Stanbrook[1,2] | 19,559 | – | – | – | – | – | – | – |
| Jon Stanton | 2,820 | – | 11 | – | – | – | – | – |

1. Thérèse Esperdy and Steven Stanbrook hold their shares in the form of American Depositary Receipts.
2. Steven Stanbrook stepped down from the Board on 2 February 2022.

Our middle market share price at the close of business on 30 September 2022, being the last trading day of the financial year, was £18.55 and the range of the middle market price during the year was £14.86 to £19.525.

Full details of the Directors' share interests are available for inspection in the Register of Directors' Interests at our registered office.

## EXECUTIVE SHAREHOLDINGS AND DIRECTORS' INTERESTS (AUDITED)

| | Shares held at start of year | Shares held at end of year[1] | Increase in shares held during year | Value of shares held at start of year[2] £'000 | Value of shares held at end of year[3] £'000 | Difference in value £'000 | Shareholding required (% salary) | Current shareholding (% salary/fees)[3] | Requirement met[3, 4 & 5] |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Stefan Bomhard[4] | 7,659 | 33,349 | 25,690 | 119 | 619 | 500 | 300 | 48 | Yes |
| Lukas Paravicini[5] | – | – | – | – | – | – | 300 | – | Yes |
| **Non-Executive Directors[6]** | | | | | | | | | |
| Thérèse Esperdy | 36,125 | 37,787 | 1,662 | 563 | 701 | 138 | – | – | n/a |
| Sue Clark | 6,121 | 6,506 | 385 | 95 | 121 | 26 | – | – | n/a |
| Alan Johnson | 263 | 586 | 323 | 4 | 11 | 7 | – | – | n/a |
| Bob Kunze-Concewitz | 50,388 | 50,630 | 242 | 785 | 939 | 154 | – | – | n/a |
| Simon Langelier | 25,665 | 26,101 | 436 | 400 | 484 | 84 | – | – | n/a |
| Diane de Saint Victor[7] | – | 252 | 252 | – | 5 | 5 | – | – | n/a |
| Ngozi Edozien[7] | – | 252 | 252 | – | 5 | 5 | – | – | n/a |
| Steven Stanbrook[8] | 19,559 | 19,559 | – | 305 | 363 | 58 | – | – | n/a |
| Jon Stanton | 2,451 | 2,820 | 369 | 38 | 52 | 14 | – | – | n/a |

1. Or date of leaving if earlier.
2. Based on a share price of £15.585, being the closing price on 30 September 2021, and includes the value of shares owned outright and those vested but subject to a holding period, being the deferred element of the bonus.
3. Based on a share price of £18.55, being the closing price on 30 September 2022.
4. Stefan Bomhard joined the Board on 1 July 2020 and has five years to build to his shareholding requirement.
5. Lukas Paravicini joined the Board on 1 May 2021 and has five years to build to his shareholding requirement.
6. Non-Executive Directors do not have a shareholding requirement but are required to invest a minimum percentage of their fees in the Company's shares which they are required to retain for the duration of their appointment.
7. Diane de Saint Victor and Ngozi Edozien joined the Board on 15 November 2021.
8. Steven Stanbrook stepped down from the Board on 2 February 2022.

## REVIEW OF PAST PERFORMANCE

The chart below shows the value of £100 invested in the Company on 1 October 2012 compared with the value of £100 invested in the FTSE 100 Index for each of our financial year-ends to 30 September 2022. We have chosen the FTSE 100 Index as it provides the most appropriate and widely recognised index for benchmarking our corporate performance over a 10-year period.

### Total shareholder return

## CHANGE IN CHIEF EXECUTIVE OFFICER REMUNERATION

| | **2022 Stefan Bomhard** | 2021 Stefan Bomhard | 2020 Stefan Bomhard | 2020 Joerg Biebernick | 2020 Dominic Brisby | 2020 Alison Cooper | 2019 Alison Cooper | 2018 Alison Cooper | 2017 Alison Cooper | 2016 Alison Cooper | 2015 Alison Cooper | 2014 Alison Cooper | 2013 Alison Cooper |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total remuneration £'000 | **5,707** | 3,421 | 1,104 | 963 | 943 | 448 | 2,137 | 3,935 | 4,657 | 5,404 | 3,637 | 2,686 | 2,011 |
| Annual bonus as a percentage of maximum | **84** | 64.1 | 40[1] | 40[1] | 40[1] | 40[1] | 31[2] | 87 | 60 | 72 | 80 | 69 | 34 |
| Shares vesting as a percentage of maximum | **19.8[3]** | 30.8[4] | nil | nil | nil | nil | nil | 20 | 44.4 | 45.7 | 15.8 | 5.8 | nil |

1. 48.4% was the formulaic out-turn; however, the Remuneration Committee accepted the CEO's recommendation and used its discretion to reduce this to 40%.
2. 51% was the formulaic out-turn; however, the Remuneration Committee used its discretion and reduced this to 31%.
3. Relates to vesting of Long-term Incentive Plan (excluding Recruitment Award).
4. Relates to vesting of Recruitment Award based on performance criteria of former employer.

## 3. HOW DIRECTORS' REMUNERATION COMPARES WITH EMPLOYEES' REMUNERATION

There is a strong alignment between how we approach pay for our Executive Directors and the wider workforce, with a focus on performance-related pay and similar performance metrics in our Annual Bonus and LTIP. Our reward packages are designed to attract, incentivise and retain the best talent, driven by market practice, skills and experience.

| Executive Directors | | UK employees |
|---|---|---|
| Increase in line with wider workforce | Salary | Average increase for FY23 – between 3% and 9% |
| Mix of financial/strategic measures, with 50% of bonus deferred into award over shares | Annual Bonus | Mix of financial/strategic measures 100% paid in cash |
| Performance metrics measured over three years, with two-year holding period after vesting | LTIP | Performance metrics measured over three years No holding period |
| 14% cash or contributions into Company's pension fund | Pension | The majority of UK employees receive a contribution of 14% of salary |
| £250 per month and three-year savings period | Sharesave | £250 per month and three-year savings period |

### Consideration of colleagues' views

Our colleagues are at the core of our business, and during the year the Board expanded on its listening sessions and workforce engagement which gave us an opportunity to hear feedback from colleagues on a variety of topics including our strategy, ESG, culture, and diversity, equity and inclusion. We also explored the topic of remuneration, giving participants the opportunity to learn about how the Committee is required to align executive reward with the approach to pay for all employees, and to understand their views on reward at Imperial Brands. The level of engagement was extremely high with a constructive discussion covering:

- Selection of Annual Bonus measures and how this links to culture and performance
- Focus on the wider package including opportunities and culture and links to attraction and retention
- Flexible working practices
- Recognition that pay and benefits are attractive within the Company and discussion on how these can be made more transparent
- Linking ESG targets to remuneration
- Cost-of-living crisis

The Board is committed to listening to colleagues and appreciates the opportunity to understand what is important to them. These views, such as the importance of ESG, are taken into account in decision-making and have been reflected in actions taken in the year.

We will look to hold further listening sessions on reward in FY23.

## PERCENTAGE CHANGE IN BOARD REMUNERATION

The table below shows the percentage change in the salary, benefits and Annual Bonus for the Directors, between FY22 and FY21, as well as the disclosures for FY21 and FY20.

| | Year-on-year change in pay for Directors compared with UK employees | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2022** | | | 2021 | | | 2020 | | |
| | **Salary** | **Benefits** | **Annual Bonus** | Salary | Benefits | Annual Bonus | Salary | Benefits | Annual Bonus |
| **Executive Director** | | | | | | | | | |
| Stefan Bomhard | **2.5%** | **0.0%** | **34.3%** | 58.6% | 183.3% | 540.6% | Stefan was appointed to the Board on 1 July 2020 | | |
| Lukas Paravicini[1] | **140.1%** | **150.0%** | **241.4%** | Lukas was appointed to the Board on 1 May 2021 | | | | | |
| **Non-Executive Directors** | | | | | | | | | |
| Thérèse Esperdy | **2.5%** | **n/a** | **n/a** | 24.7% | (100%) | n/a | 353.27%[2] | -41.30% | n/a |
| Sue Clark | **2.2%** | **n/a** | **n/a** | 7.0% | (100%) | n/a | 55.42% | -50.00% | n/a |
| Alan Johnson | Alan was appointed to the Board on 1 January 2021[3] | | | | | | | | |
| Bob Kunze-Concewitz[4] | **11.5%** | **n/a** | **n/a** | Bob was appointed to the Board on 1 November 2020 | | | | | |
| Simon Langelier | **2.4%** | **n/a** | **n/a** | 0.0% | (100%) | n/a | 2.41% | -40.00% | n/a |
| Pierre-Jean Sivignon | Pierre-Jean stepped down from the Board on 4 June 2021 | | | 176.2% | n/a | n/a | Pierre-Jean was appointed to the Board on 1 July 2020 | | |
| Steven Stanbrook | Steven stepped down from the Board on 2 Feb 2022 | | | 0.0% | (100%) | n/a | 8.42% | -66.67% | n/a |
| Jon Stanton[5] | **1.8%** | **n/a** | **n/a** | 17.9% | (100%) | n/a | 187.88%[5] | 0.00% | n/a |
| Ngozi Edozien | Ngozi was appointed to the Board on 15 Nov 2021[3] | | | | | | | | |
| Diane de Saint Victor | Diane was appointed to the Board on 15 Nov 2021[3] | | | | | | | | |
| All UK employees | **2.7%** | **7.3%** | **2.9%** | 0.0% | 2.4% | 7.9% | 6.69% | -5.72% | 32.44% |

1. Lukas was appointed to the Board on 1 May 2021.
2. Increase reflects first full year as Chair.
3. A year on year comparison is not possible in these circumstances.
4. Bob was appointed to the Board on 1 November 2020
5. Increase reflects first full year as chair of the Audit Committee.

## CEO PAY RATIO

The table below shows the multiple of our CEO's pay ratio to median, lower quartile and upper quartile pay in the UK. The calculations are based on methodology Option A as defined by the regulations and by calculating the pay and benefits of all UK employees on a full-time equivalent basis. Option A was chosen as it is the most robust approach. The CEO pay ratio is based on comparing the CEO's pay to that of Imperial Brands' UK-based employee population, a large proportion of whom are in sales roles. The Committee anticipates that the ratios are likely to be volatile over time, largely driven by the CEO's incentive outcomes which are dependent on Group-wide results. In light of financial performance outcomes being signed off close to the publication of the Annual Report, the Annual Bonus outcomes for employees other than the CEO have been calculated at target performance (60% of maximum bonus opportunity), although some employees may receive a variation of this in practice. In 2021 total CEO remuneration used to calculate the ratios was £3,421,078; and in respect of base salary only £1,269,000 was used.

The pay levels shown for the percentiles reflect remuneration for the 12 months to 30 September 2022.

| Financial year | Calculation methodology | P25 (lower quartile) x:1 | P50 (median) x:1 | P75 (upper quartile) x:1 |
|---|---|---|---|---|
| 2022 | A | 102.9 | 79.6 | 52.1 |
| 2021[1] | A | 60.7 | 48.4 | 31.1 |
| 2020 | A | 50.2 | 38.7 | 24.4 |
| 2019 | A | 53.0 | 36.5 | 22.0 |

| | Stefan Bomhard | P25 (lower quartile) | P50 (median) | P75 (upper quartile) |
|---|---|---|---|---|
| Total remuneration | £5,707,264 | 102.9 | 79.6 | 52.1 |
| Base salary | £1,300,725 | 32.3 | 26.3 | 18.4 |

1. 2021 CEO pay ratios have been updated to reflect the value of the updated 2021 CEO single figure which incorporates long-term incentives based on actual vesting, rather than the estimate used for the 2021 disclosure. Historical data excludes Nerudia.

The CEO total remuneration pay ratio has increased across all percentiles, due to an increase in CEO total remuneration driven by incentive out-turns and strong share price performance. The CEO base salary ratio has remained static, confirming that the variance is driven by performance-related variable pay.

The salary component for FY22 at each quartile is £40,232 (P25), £49,412 (P50) and £70,647 (P75). The equivalent total pay numbers are £55,452 (P25), £71,685 (P50) and £109,463 (P75).

The Committee is satisfied that the overall picture presented by the 2022 pay ratios is consistent with the reward policies for our UK employees. The Committee takes into account these ratios when making decisions around the Executive Director pay packages, and Imperial Brands takes seriously the need to ensure competitive pay packages across the organisation.

## RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividends.

| £ million unless otherwise stated | 2022 | 2021 | Percentage change |
|---|---|---|---|
| Executive Directors' total remuneration[1,2] | **8** | 5[4] | 52 |
| Overall expenditure on pay[2] | **642** | 775 | (17.2) |
| Dividend paid in the year[3] | **1,320** | 1,305 | 1.1 |

1. Executive Directors' total remuneration is based on the total single figure for all Executive Directors and is included to provide a comparison between Executive Director and overall employee pay.
2. Excludes employer's social security costs.
3. There were no share buybacks during either FY21 or FY22.
4. The total single figure for FY21 has been restated to reflect the actual vesting of Sfefan Bomhard's 2021 LTIP award on 12 April 2021.

## EMPLOYEE BENEFIT TRUSTS

Our policy remains to satisfy options and awards under our employee share plans either from market-purchased ordinary shares or ordinary shares held in treasury, distributed through our employee benefit trusts: the Imperial Tobacco Group PLC Employee and Executive Benefit Trust (the Executive Trust) and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the 2001 Trust) (together the Employee Benefit Trusts).

As at 30 September 2022, we held 70,289,137 ordinary shares in treasury which can be used to satisfy options and awards under our employee share plans either directly or by gifting them to the Employee Benefit Trusts.

Options and awards may also be satisfied by the issue of new ordinary shares.

Details of the ordinary shares held by the Employee Benefit Trusts are as follows:

| | Balance at 01/10/2021 | Acquired during year | Distributed during year | Balance at 30/09/2022 | Ordinary shares under award at 30/09/2022 | Surplus/ (shortfall) |
|---|---|---|---|---|---|---|
| Executive Trust | 584,370 | 1,000,000 | (80,037) | 1,504,333 | 2,049,346 | (545,013) |
| 2001 Trust | 371,833 | 3,050,000 | (1,264,376) | 2,157,457 | 8,600,580 | (6,443,123) |

## SHARE PLAN FLOW RATES

The rules of each of the Company's share plans contain provisions limiting the grant of options and awards to shares representing no more than 10% of the issued share capital of the Company over a period of 10 years (or, in the case of options and awards granted under the LTIP and Deferred Share Bonus Plan, 5% of issued share capital over the same 10-year period). As at 30 September 2022, an aggregate total of 1% of the Company's issued share capital (including shares held in treasury) is subject to options and awards under our executive and all-employee share plans.

## SUMMARY OF OPTIONS AND AWARDS GRANTED

| Limit on awards | Cumulative options and awards granted as a percentage of issued share capital (including those held in treasury) | Options and awards granted during the year as a percentage of issued share capital (including those held in treasury) |
|---|---|---|
| 10% in 10 years | 2.5 | 0.3 |
| 5% in 5 years | 1.7 | 0.3 |
| 5% in 10 years (executive plans) | 2.0 | 0.3 |

## EXTERNAL BOARD DIRECTORSHIPS

The Committee recognises that external non-executive directorships are beneficial for both the Executive Director concerned and the Company. Each serving Executive Director is restricted to one external non-executive directorship in a listed company and may not serve as the chair of a FTSE 100 company. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship.

Stefan Bomhard is a non-executive director of Compass Group PLC and was permitted to retain the £90,000 fee received from this position in the financial year.

## 4. REMUNERATION COMMITTEE MEMBERSHIP AND DUTIES

The Board is ultimately accountable for executive remuneration, but has delegated this responsibility to the Committee, at least three of whose members are independent Non-Executive Directors. The Chair, who is a member of the Committee, was independent on appointment. We consider this independence fundamental in ensuring that Executive Directors' and senior management's remuneration is set by those who have no personal financial interest, other than as shareholders, in the matters discussed. To reinforce this independence, a standing item at each Committee meeting allows the members to meet without any Executive Director or other manager being present.

Biographical details of the current members of the Remuneration Committee are set out at pages 96 to 99. Members of the Committee are appointed by the Board following recommendation by the People and Governance Committee (formerly known as the Succession and Nominations Committee).

The Committee must meet at least twice a year. A quorum for meeting is two.

The Committee considers its key responsibility as being to support the Company's strategy and its short and long-term sustainable success. This is ensured by the adherence to our Executive Pay Principles set out on pages 134 to 136 and to the Directors' Remuneration Policy which together set the right conditions for high-calibre executives to deliver and, further, to provide long-term benefits to all stakeholders. It also determines the specific remuneration package, including service agreements and pension arrangements, for the Chair, each Executive Director and our Executive Leadership Team. When setting the policy for Executive Director remuneration, the Committee reviews workforce remuneration and related policies to ensure the alignment of incentives and rewards across the Group.

The Committee's other responsibilities include:

- Maintaining a competitive Remuneration Policy appropriate to the business environment of the countries in which we operate, thereby ensuring we can attract, retain and motivate high-calibre individuals throughout the business;
- Aligning Executive Directors' and senior management's remuneration with the interests of long-term shareholders and other stakeholders whilst ensuring that remuneration is fair but not excessive and reflects the contribution made;
- Setting measures and targets for the performance-related elements of variable pay;
- Oversight of our overall policy for employee remuneration, employment conditions and our employee share plans; and
- Ensuring appropriate independent advisers are appointed to provide advice and guidance to the Committee.

The Committee's terms of reference are reviewed annually and were last reviewed in September 2022. They are available on our website www.imperialbrandsplc.com

When carrying out its duties the Committee considers the Remuneration Policy and practices in the context of provision 40 of the UK Corporate Governance Code, as follows:

**Clarity** – The Remuneration Policy sets out clearly each element of remuneration limits in terms of quantum and the discretions the Committee can apply. The DRR sets out the arrangements clearly and transparently. Questions on the remuneration arrangements can be raised at the AGM and through our "Meet the Board" programme.

**Simplicity** – The remuneration structure for our Executive Directors consists of fixed pay (base salary, pension and benefits), Annual Bonus and a Long-Term Incentive Plan. Our remuneration structures throughout the organisation are simple in nature and understood by employees.

**Risk** – A number of features within the Remuneration Policy exist to manage different kinds of risks; these include:

- Malus and clawback provisions operating across all discretionary incentive plans;
- Deferral of remuneration and holding periods;
- Remuneration Committee discretion to override formulaic out-turns to ensure incentive pay-outs reflect underlying business performance and shareholder experience;
- Limits on awards specified within the policy and plan rules; and
- Regular interaction with the Audit Committee.

**Predictability** – The Committee regularly reviews the performance of in-flight awards so it understands the likely outcomes.

**Proportionality** – The Committee is against rewarding poor performance and, therefore, a significant portion of remuneration is performance-based and dependent on delivering the Company's strategy. Performance targets are based on a combination of measures to ensure there is no undue focus on a single measure.

**Alignment** – There is a clear progression of remuneration throughout the workforce with performance measures supporting the key performance indicators and the long-term sustainability of the business. The Committee reviews the Remuneration Policy, taking into account the feedback received from shareholders and the impact on the wider workforce.

### Remuneration Committee meetings 2021/22

The Remuneration Committee met for four scheduled meetings during the year, although there was significant work outside these meetings for the Committee to agree remuneration packages for new members of the senior leadership team and to review and appoint a remuneration adviser, Deloitte LLP. On appointment, Deloitte conducted a training session, which was an opportunity for Non-Executive Directors and relevant senior managers to meet the new adviser. Details of the main activities are set out in the Chair's statement at the beginning of the DRR on page 130.

Other regular attendees include the CEO, Company Secretary, Remuneration Committee Secretary, Chief People and Culture Officer, Global Reward Director and the Committee's principal adviser. None of the individuals were involved in any decisions relating to their own remuneration.

### Advice provided to the Remuneration Committee

FIT Remuneration Consultants LLP (FIT) acted as the independent remuneration adviser to the Committee until 6 January 2022. FIT was appointed by the Committee with effect from 1 November 2017. Following a comprehensive tendering process, Deloitte LLP was appointed as the independent adviser to the Committee effective 7 February 2022. FIT was paid fees of £14,774 for its services during the year. Deloitte was paid fees of £121,200 for its services during the year.

Both FIT and Deloitte are members of the Remuneration Consultants' Group and comply with its Code of Conduct which sets out guidelines to ensure that their advice is independent and free of undue influence. FIT carried out no other work for Imperial Brands or its subsidiaries. Deloitte LLP provided other advisory services including corporate tax and employee mobility advice, and technology consulting services.

The Committee is satisfied that advice received by FIT and Deloitte during the year was independent and objective and that all individuals who provided remuneration advice to the Committee have no connections with Imperial Brands that may impair their independence.

### Other companies which provided advice to the Remuneration Committee are as follows:

Alithos Limited undertook total shareholder return (TSR) calculations and provided advice on all TSR-related matters. During the year it was paid £19,500 and provided no other services to the Company. Willis Towers Watson provided market pay data and was paid £16,900 for these services. Willis Towers Watson also provided actuarial and wider reward-related services to the Company. All of these advisers were appointed by the Committee, which remains satisfied that the provision of those other services in no way compromises their independence. They are all paid on the basis of actual work performed rather than on a fixed fee basis.

## VOTING ON THE REMUNERATION REPORT AT THE 2022 AGM

At the 2022 AGM there was a vote to approve the Directors' Remuneration Report. We received a strong vote in favour of our Director's Remuneration Policy at our 2021 AGM.

| Resolution | Votes for including discretionary votes | Percentage for | Votes against | Percentage against | Total votes cast excluding votes withheld | Votes withheld[1] | Total votes cast including votes withheld |
|---|---|---|---|---|---|---|---|
| Directors' Remuneration Report (2022 AGM) | 702,037,143 | 95.93 | 29,784,340 | 4.07 | 731,821,483 | 680,193 | 732,501,676 |
| Director's Remuneration Policy (2021 AGM) | 706,375,474 | 95.28 | 34,958,557 | 4.72 | 741,334,031 | 1,374,300 | 742,708,331 |

1. Votes withheld are not included in the final figures as they are not recognised as a vote in law.

The strong support received for the Directors' Remuneration Report followed engagement with our largest shareholders during 2021 and 2022. The input we received from shareholders was extremely helpful. Following the AGM, we continued to engage with our largest shareholders, taking their feedback on our plans to include ESG measures into our FY23 incentives. At the 2023 AGM, shareholders will be invited to vote on the 2022 Directors' Remuneration Report (advisory vote).

**Sue Clark**
Chair of the Remuneration Committee

# DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 30 September 2022. This Directors' Report forms part of the management report required under the Disclosure Guidance and Transparency Rules (DTR). The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, to include certain matters in the Strategic Report that would otherwise be required to be disclosed in the Directors' Report. The Strategic Report can be found on pages 2 to 93 and includes an indication of future likely developments of the Company, details of important Company events and the Company's business model and strategy. The Corporate Governance Report on pages 94 to 128, the Directors' Report on pages 150 to 154 and the Directors' Responsibilities Statement on page 155 are incorporated into the Directors' Report by reference.

Specifically, the following disclosures have been included elsewhere in the Annual Report and are incorporated into the Directors' Report by reference:

| Disclosure | Page |
|---|---|
| Future developments in the business | 26 |
| Disclosure of greenhouse gas emissions | 42 |
| Going concern statement | 92 |
| Viability statement | 92 |
| Qualifying Director's indemnity provisions | 116 |
| Statement of Directors' responsibilities including disclosure of information to the auditor | 129 and 155 |
| Financial risk management | 197 |
| Shareholder information | 245 |

## EQUAL OPPORTUNITIES

We regard equality and fairness as a fundamental right of all our people. We aim to create a work environment that allows equal opportunities so people are employed fairly, safely and in compliance with applicable employment laws and regulation. We respect each person for who they are and what they can contribute and provide the same opportunity for career development and promotion regardless of disability, physical or mental health, age, race, origin, gender, sexual orientation, political views, religion, marital status or any other legally protected status.

## CHARITABLE AND POLITICAL DONATIONS

As part of our responsible approach, we continued to support a number of communities in which we operate by allocating a central budget. This budget largely funds our support of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and our support of Hope for Justice. In addition, a number of our subsidiaries donate to charitable and community endeavours from local budgets.

All charitable donations and partnership investments are subject to the requirements of our Code of Conduct.

No political donations were made to UK or non-UK political parties, organisations or candidates during the year (2021: nil). This approach is aligned with our Group policy and Code of Conduct.

## SHARE CAPITAL

Details of our share capital are shown in note 25 to the financial statements. All shares other than those held in treasury are freely transferable and rank pari passu for voting and dividend rights.

As at 30 September 2022 we held 70,289,137 shares in treasury, which represented approximately 7.39 per cent of the Company's issued share capital and had an aggregate nominal value of £7,028,914.

We have not cancelled these shares but hold them in a treasury shares reserve within our profit and loss account reserve, and they represent a deduction from equity shareholders' funds.

### Transaction in own shares

Imperial Brands PLC (the Company) was on Friday 4 February 2022 informed of the transfer, on 4 February 2022, by way of gift of 3,000,000 (three million) of its ordinary shares of 10 pence each (Shares), which were held in treasury, to the Imperial Tobacco Group PLC 2001 Employee Benefit Trust and 1,000,000 (one million) Shares, which were held in treasury, to the Imperial Tobacco Group PLC Employee and Executive Benefit Trust. The shares were to be used to satisfy awards outstanding under the Company's employee share plans.

### Purchase of ordinary shares

During 2022, we announced a commitment to return surplus capital to shareholders though regular annual share buybacks if circumstances were right, expected to be in the region of £1 billion in the financial year ending 30 September 2023.

At its AGM on 2 February 2022, the Company obtained shareholder authorisation for the buyback of up to 94,600,000 shares. No shares were purchased during the year or in the previous financial year.

## INTEREST IN VOTING RIGHTS

The Company has been notified of the following interest in 3 per cent or more of our shares in accordance with Section 5.1.2 of the Disclosure Guidance and Transparency Rules (DTRs). The Company has not been notified of any changes to these interests since the year-end and up to 14 November 2022, being a date not more than one month prior to the date of the AGM Notice of Meeting, in accordance with DTR 5:

| Disclosure | Number of ordinary shares at the date of notification (millions) | Percentage of issued share capital at the date of notification |
|---|---|---|
| BlackRock | 53 | 5.62[1] |
| Spring Mountain Investments Ltd | 48 | 5.19[2] |
| Capital Group Companies Inc | 48 | 5.09[1] |
| FIL Limited | 47 | 4.98[1] |

1. Direct holding.
2. Indirect holding.

## RESULTS AND DIVIDENDS

We include a review of our operational and financial performance on pages 28 and 29.

The profit attributable to equity holders of the Company for the financial year was £1,570 million, as shown in our Consolidated Income Statement. Note 3 to the financial statements gives an analysis of revenue and operating profit.

An analysis of net assets is provided in the Consolidated Balance Sheet and the related notes to the financial statements.

We pay quarterly dividends. The first and second dividends for financial year 2022 were paid on 30 June 2022 and 30 September 2022 respectively. The third dividend will be paid on 30 December 2022 and, subject to AGM approval, the final dividend will be paid on 31 March 2023 to our shareholders on the Register of Members at the close of business on 17 February 2023. The associated ex-dividend date will be 16 February 2023.

Following a review by the Audit Committee at its meeting in November 2022, which confirmed the accounts showed distributable reserves sufficient to support the expected third interim and final dividends and the interim dividends in financial year 2023, the Directors have declared and propose dividends as follows:

| Ordinary shares | **2022 £ million** | 2021 £ million |
|---|---|---|
| Interim paid – June 2022<br>21.27p per share | **202** | 199 |
| Interim paid – September 2022<br>21.27p per share | **202** | 199 |
| Declared interim – December 2022<br>49.31p per share | **467** | 458 |
| Proposed final – March 2023<br>49.32p per share | **467** | 458 |
| Total ordinary dividends<br>141.17p per share<br>(2021: 139.08p) | **1,338** | 1,314 |

## PENSION FUND

The Group Pensions Committee has been established to provide global oversight on both risk and reward elements of the Group's Pension arrangements.

The Committee's objectives include tackling the risks inherent in the Group's defined benefit pension schemes as well as reward matters.

The Group has three main pension arrangements, the largest being the Imperial Tobacco Pension Fund, which is not controlled by the Board but by a trustee company. Its board consists of five Directors nominated by the Company, one Director nominated by employee members and two Directors nominated by current and deferred pensioners. This trustee company is responsible for the assets of the pension fund, which are held separately from those of the Group and are managed by independent fund managers. The pension fund assets can only be used in accordance with the fund's rules and for no other purpose.

## ARTICLES

The Company's Articles of Association do not contain any entrenchment provisions and, therefore, may be altered or added to, or completely new Articles may be adopted, by special resolution, subject to the provisions of the Companies Act 2006.

## SIGNIFICANT AGREEMENTS

The agreements summarised below are those which we consider to be significant to the Group as a whole and which contain provisions that take effect, or give the other party or parties a specific right to alter or terminate them if we are subject to a change of control following a takeover bid.

The Group has a credit facility agreement that provides that, unless the lenders (as defined within each agreement) otherwise agree, if any person or group of associated persons and/or any connected persons acquires the right to exercise more than 50 per cent of the votes exercisable at a general meeting of the Company, the respective borrowers (as defined within each agreement) must repay any outstanding utilisation owed by them under the facility agreement and the total commitments under that facility agreement will be cancelled.

The credit agreement is:

- A credit facilities agreement dated March 2020 under which certain banks and/or financial institutions make available to Imperial Brands Finance PLC and Imperial Tobacco Germany Finance GmbH (now Reemtsma Cigarettenfabriken GmbH) committed credit facilities of €3,500 million for a period of up to three years with bi-annual six month auto-extensions.

In addition, five deeds of counter-indemnity each dated July 2020 made on substantially the same terms under which certain insurance companies (the Sureties) have made available to the Company, Imperial Brands Finance PLC and Imperial Tobacco Limited a surety bond, in each case issued on a standalone basis but in aggregate forming an amount of £225 million, until January 2026.

If any person or group of associated persons (as defined within each agreement) acquires the right to exercise more than 50% of the votes exercisable at a general meeting of the Company, the Sureties may demand that Imperial Tobacco Limited, amongst other things, pay a sum to a cash collateral account equal to but not exceeding the aggregate amount outstanding under each guarantee.

Imperial Brands Finance PLC and Imperial Brands Finance Netherlands B.V. have issued bonds under Euro Medium Term Notes (EMTN) Debt Issuance Programmes. The Company acts as guarantor.

The final terms of these series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at its nominal value if: (a) any person, or persons acting in concert or on behalf of any such person(s), becomes interested in: (i) more than 50% of the issued or allotted ordinary share capital of the Company; or (ii) such number of shares in the capital of the Company carrying more than 50% of the voting rights normally exercisable at a general meeting of the Company; and (b) as a result of the change of control, there is either: (i) a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms; or (ii) to the extent that the notes are not rated at the time of the change of control, the Issuer fails to obtain an investment grade credit rating of the notes within the change of control period as a result of the change of control.

The bonds Imperial Brands Finance PLC issued in such manner are as follows:

- 15 September 2008 £600 million 8.125 per cent guaranteed notes due 2024;
- 17 February 2009 £1,000 million 9 per cent guaranteed notes due 2022;
- 26 September 2011 £500 million 5.5 per cent guaranteed notes due 2026;
- 28 February 2014 €650 million 3.375 per cent guaranteed notes due 2026;
- 28 February 2014 £500 million 4.875 per cent guaranteed notes due 2032;
- 27 January 2017 €500 million 1.375% guaranteed notes due 2025;
- 12 February 2019 €750 million 1.125% guaranteed notes due 2023; and
- 12 February 2019 €750 million 2.125% guaranteed notes due 2027.

The bonds Imperial Brands Finance Netherlands B.V. issued in such manner are as follows:

- 18 March 2021 €1,000 million 1.750% guaranteed notes due 2033.

Imperial Brands Finance PLC has also issued bonds in the United States of America under the provisions of Section 144a and Regulation S respectively of the US Securities Act (1933). The Company acts as guarantor.

The final terms of this series of notes contain change of control provisions under which the holder of each note will, subject to any earlier exercise by the Issuer, have the option to require the Issuer to redeem or, at the Issuer's option, purchase that note at 101 per cent of its nominal value if: (a) (i) any person (as such term is used in the US Securities Exchange Act of 1934 (the Exchange Act)) becomes the beneficial owner of more than 50 per cent of the Company's voting stock; or (ii) there is a transfer (other than by merger, consolidation, amalgamation or other combination) of all or substantially all of the Company's assets and those of its subsidiaries to any person (as such term is used in the Exchange Act); or (iii) a majority of the members of the Company's Board of Directors is not continuing in such capacity; and (b) as a result of the change of control, there is a reduction to a non-investment grade rating or withdrawal of the investment grade rating of the notes which is not raised again, reinstated to or replaced by an investment grade rating during the change of control period specified in the final terms.

The bonds issued in such manner are as follows:

- 11 February 2013 $1,000 million 3.5 per cent guaranteed notes due 2023;
- 21 July 2015 $1,500 million 4.25 per cent guaranteed notes due 2025;
- 26 July 2019 $1,000 million 3.125 per cent guaranteed notes due 2024;
- 26 July 2019 $750 million 3.5% guaranteed notes due 2026;
- 26 July 2019 $1,000 million 3.875 per cent guaranteed notes due 2029; and
- 27 July 2022 $1,000 million 6.125% guaranteed notes due 2027.

## OTHER INFORMATION – LISTING RULES

In respect of LR 9.8.4R (12) and (13) the trustee of the Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust agrees to waive dividends payable on the Group's shares it holds for satisfying awards under various Imperial Brands PLC share plans. In accordance with Section 726 of the Act no dividends can be paid to the Company in respect of the shares it holds in treasury.

## 2022 ANNUAL GENERAL MEETING VOTE

At the Annual General Meeting in 2022, the Company received strong support for all its resolutions.

## POST-YEAR-END EVENTS

### Share buybacks

On 6 October 2022 the Company announced the start of an ongoing share buyback programme, to initially repurchase up to £1 billion of shares in the period from 7 October 2022 to 30 September 2023.

### Pension fund loan

Imperial Brands Finance PLC provided a temporary loan facility of £320 million to the Imperial Tobacco Pension Fund, of which £200 million had been drawn down during the first half of October 2022 to support ongoing liquidity requirements within the Fund's Liability Driven Investment holdings during a period of volatility in the UK Government Bond market. £70 million of the drawn amount has been repaid, with the remaining £130 million to be repaid before 31 March 2023.

### Logista acquisitions

In October 2022, the Group's subsidiary Logista completed the acquisition of Carbo Collbatelle, S.L. and Transportes El Mosca. Further details can be found in note 10 to the consolidated financial statements.

### Russian disposal – associate market exits

Following the decision to sell the Volgograd factory that completed April 2022, it was determined that it would no longer be economically viable to operate in a number of associated markets. As a consequence of this, the Group announced on 1 November 2022 that it was ending all operations in Kazakhstan, Kyrgyzstan, Mongolia and Armenia.

## 2023 ANNUAL GENERAL MEETING

This year's AGM will be held at the Bristol Marriott Hotel City Centre, 2 Lower Castle Street, Old Market, Bristol, BS1 3AD on 1 February 2023 at 2.30pm.

Details of the resolutions to be put to the meeting can be found in the Notice of Annual General Meeting sent to shareholders and made available on the Company's website.

## SUMMARY

For the purposes of LR 9.8.4R, the information required to be disclosed by LR 9.8.4R can be found on the pages set out below:

| Section | Information | Page |
|---|---|---|
| (1) | Interest capitalised | N/A |
| (2) | Publication of unaudited financial information | N/A |
| (4) | Details of long-term incentive schemes | 134, 136, 138, 139, 141 and 142 |
| (5) | Waiver of emoluments by a Director | N/A |
| (6) | Waiver of future emoluments by a Director | 135, 136 and 140 |
| (7) | Non pre-emptive issues of equity for cash | N/A |
| (8) | Non pre-emptive issue by major subsidiary undertakings | N/A |
| (9) | Listed subsidiary | N/A |
| (10) | Contracts of significance | 151 |
| (11) | Provision of services by a controlling shareholder | N/A |
| (12) | Shareholder waivers of dividends | See above |
| (13) | Shareholder waivers of future dividends | See above |
| (14) | Agreements with controlling shareholders | N/A |

## OTHER INFORMATION

In accordance with the Companies Act 2006, the following items have been included in other sections of this Annual Report:

- a fair review of the business, as required by the Companies Act 2006, is included in the Strategic Report;
- the information in our Governance Report is included in this Directors' Report by reference;
- future developments in the business are included in the investment case commencing on page 26;
- information relating to our people, including colleague engagement, is included in the Stakeholder Engagement section on page 31, our People and Planet agenda on pages 36 and 37, Safe and Inclusive workforce on pages 52 to 57 and on pages 105 and 107 in our Governance Report;
- our principal risks are detailed on pages 82 to 93;
- information relating to our sustainability approach that supports our environmental, social and governance agenda is included on pages 36 to 58;
- responsibilities to a broader stakeholder group, including consumers and customers, are included on pages 30 to 34, and 108 to 112;
- information on our greenhouse gas emissions is included on page 42; and
- the Directors of the Company are listed on pages 96 to 99.

Our report under the Streamlined Energy and Carbon Reporting requirements can be found on pages 42 and 43.

The Strategic Report and this Directors' Report were approved and signed by order of the Board.

**John Downing**
Company Secretary

15 November 2022

Imperial Brands PLC

Incorporated and domiciled in England and Wales No: 3236483

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with UK – adopted International Accounting Standards (UK – adopted IFRS). In addition, the Directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and consistently apply suitable accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state whether the Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company on a consolidated and individual basis, and to enable them to ensure that the Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Parent Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Remuneration Report and Corporate Governance Statement that comply with the law and those regulations.

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

Each of the Directors, whose names and functions are listed on pages 96 to 99, confirms that, to the best of their knowledge

- the Group and Parent Company financial statements, which have been prepared in accordance with IFRS as adopted by the UK and UK GAAP FRS 101 respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Parent Company on a consolidated and individual basis;
- the Strategic Report and the Directors' Report contained in the Annual Report and Accounts include a fair review of the development and performance of the business and position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and the Parent Company's position and performance, business model and strategy.

The Directors' responsibilities in relation to the disclosure of information to auditors is disclosed in the Audit Committee Report on page 129.

This Statement of Directors' Responsibilities was approved by the Board and signed on its behalf.

The Strategic Report and the Directors' Report were approved by the Board and signed on its behalf.

By order of the Board.

**John Downing**
Company Secretary

15 November 2022

Imperial Brands PLC

Incorporated and domiciled in England and Wales

No. 3236483

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL BRANDS PLC

### Opinion

In our opinion:

- Imperial Brands PLC's consolidated financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2022 and of the group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Imperial Brands PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2022 which comprise:

| Group | Parent company |
|---|---|
| Consolidated balance sheet at 30 September 2022 | Balance sheet at 30 September 2022 |
| Consolidated income statement for the year then ended | Statement of changes in equity for the year then ended |
| Consolidated statement of comprehensive income for the year then ended | Related notes I to X to the financial statements including a summary of significant accounting policies |
| Consolidated statement of changes in equity for the year then ended | |
| Consolidated cash flow statement for the year then ended | |
| Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies and the supplementary information on pages 221 to 228 | |

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards, The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of the directors' going concern assessment process, including the controls over the review and approval of the business plan and cash flow forecasts covering the period through to 31 March 2024;
- assessing the appropriateness of the duration of the going concern assessment period to 31 March 2024 and considering the existence of any significant events or conditions beyond this period based on our procedures on the group's business plan, cash flow forecasts and from knowledge arising from other areas of the audit;
- verifying inputs against the board-approved business plan, cash flow forecasts and debt facility terms, and reconciling the opening liquidity position to the prior year end and half year going concern assessments;
- reviewing borrowing facilities to confirm both their availability to the group and the forecast debt repayments through the going concern assessment period and to validate that there are only two financial covenants in relation to the revolving credit facility;
- evaluating management's historical forecasting accuracy and the consistency of the going concern assessment with information obtained from other areas of the audit, such as our audit procedures on the business plan and cash flow forecasts which underpin management's goodwill impairment assessments;
- testing the assessment, including forecast liquidity under base and downside scenarios, for clerical accuracy;
- assessing whether assumptions made, including those relating to current economic challenges, were reasonable and in the case of downside scenarios, appropriately severe, in light of the group's relevant principal risks and uncertainties and our own independent assessment of those risks;
- assessing management's considerations related to material climate change impacts in the going concern period;

- evaluated the amount and timing of identified mitigating actions available to respond to a severe downside scenario, and whether those actions are feasible and within the group's control;
- performing independent stress testing on management's assumptions including applying incremental adverse cash flow sensitivities. Our sensitivities included the impact of certain severe but plausible scenarios identified in other areas of our audit, including litigation and tax, materialising within the going concern period; and,
- performing reverse stress testing on management's base case scenario to understand how severe conditions would have to be to breach liquidity or financial covenants and whether the reduction in EBITDA that result in breaches to liquidity or financial covenants has no more than a remote possibility of occurring;
- assessing the appropriateness of the going concern disclosure on page 92.

### Our key observations

- The directors' assessment forecasts that the group will maintain sufficient liquidity throughout the going concern assessment period in the base case scenario and will not breach banking covenants. Under management's worst-case scenario, which includes a permanent reduction in profitability of 30%, an increase in bad debt and the loss of factoring facilities, liquidity is eliminated in January 2024. This scenario is not considered plausible. We have not identified any climate-related risks that would materially impact the group's forecasts to 31 March 2024.
- Controllable mitigating actions available to management over the going concern assessment period, including reductions to non-declared dividend payments and uncommitted share buybacks, are sufficient to restore liquidity in both management's plausible downside scenario and the audit team's additional downside sensitivities.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 31 March 2024.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

## Overview of our audit approach

| | |
|---|---|
| **Audit scope** | • We performed an audit of the complete financial information of 5 components and audit procedures on specific balances for a further 14 components.<br>• The components where we performed full or specific audit procedures accounted for 91% of Profit before tax on an absolute basis, 83% of Revenue and 89% of Total assets. |
| **Key audit matters** | • Revenue recognition, including management override of controls<br>• Measurement and classification of adjusting items<br>• Uncertain tax positions<br>• Litigation |
| **Materiality** | • Overall group materiality of £126m which represents 5% of profit before tax. |

## An overview of the scope of the parent company and group audits

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the level of revenue, assets and profit before tax, risk profile (including country risk, management's assessment of control effectiveness, internal audit findings and the extent of changes in the business environment) and other known factors when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 394 reporting components of the group, we selected 19 components covering entities within the UK, USA, Germany, Spain, Australia, Morocco, France, Poland and Belgium, which represent the principal business units within the group.

Of the 19 components selected, we performed an audit of the complete financial information of 5 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 14 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The audit scope of specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group. We also covered 18 additional locations and performed specified procedures over Cash and Cash equivalents by obtaining bank confirmation letters to validate the amounts held in those locations in order to increase the coverage of this account to 95% of the total group cash balance at 30 September 2022. Of the remaining 357 components that together represent 9% of the group's Profit before tax on an absolute basis, none are individually greater than 1% of the group's Profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the group financial statements.

The table below illustrates the coverage obtained from the work performed by our audit teams.

| | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| **Reporting components** | **Number** | **% of group PBT (on absolute basis)[1]** | **% of group Revenue** | **% of group Assets** | Number | % of group PBT (on absolute basis)[1] | % of group Revenue | % of group Assets |
| Full scope | **5** | **73%** | **60%** | **70%** | 5 | 63% | 60% | 55% |
| Specific scope | **14** | **18%** | **23%** | **19%** | 19 | 32% | 25% | 25% |
| Specified procedures | **18** | **0%** | **0%** | **1%** | 10 | 1% | 1% | 2% |
| Full, specific, and specified procedures coverage | **37** | **91%** | **83%** | **90%** | 34 | 96% | 86% | 82% |
| Remaining components | **357** | **9%** | **17%** | **10%** | 354 | 4% | 14% | 18% |
| Total reporting components | **394** | **100%** | **100%** | **100%** | 388 | 100% | 100% | 100% |

1. Coverage of profit before tax measured on an absolute basis for each component (components with a loss would be added to both the numerator and denominator).

### Changes from the prior year

The approach to audit scoping is similar to the prior year audit. Our scoping changes from the prior year arise due to a change in either the risk assigned to the components or the contribution by the component include the following:

- The Russian component has been removed from scope as a result of its disposal which completed in April 2022;
- Certain components in Belgium, Netherlands and USA have moved from specific scope to review scope reflecting lowered audit risk and reduced contribution in comparison to the prior year.

### Involvement with component teams

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 5 full scope components, audit procedures were performed on one of these directly by the primary audit team and four by component audit teams. For the 14 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole.

Imperial has centralised processes and controls in relation to certain accounts managed by its Finance Shared Services ("FSS") centres in Manila and Krakow. Members of the group engagement team provided direct oversight, review, and coordination of the EY FSS audit teams. The EY FSS audit teams performed centralised testing for certain accounts covered at the Imperial FSS locations, including revenue and receivables and purchases and payables. In establishing our overall approach to the group audit, we determined the work that needed to be undertaken at each of the locations by the group engagement team or by auditors from local EY teams.

The group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, and other group Partners, visit all full scope and other key locations. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in the USA, Germany, Spain, Morocco, France and Poland. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, and reviewing relevant audit working papers on risk areas. The primary team interacted regularly with the component teams, where appropriate, during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. At critical periods of the audit, we increased the use of online collaboration tools to facilitate team meetings, information sharing and the evaluation, review and oversight of component teams. We requested more detailed deliverables from component teams, and we utilised fully the interactive capability of EY Canvas, our global audit workflow tool, to review remotely the relevant underlying work performed. Other group partners are responsible for the UK component teams. For the UK components, communication has been maintained throughout the audit with the Senior Statutory Auditor covering the same areas described above applicable to all non-UK component teams. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

### Climate change

There has been increasing interest from stakeholders as to how climate change will impact Imperial Brands PLC. The group has determined that the most significant future impacts from climate change on their operations will be from:

- an increase in material costs
- increased costs from emerging regulation such as carbon taxation
- changes in the tobacco crop yield that may lead to agricultural supply chain disruption; and,
- other impacts that may cause supply chain disruption or affect production capacity, namely:
  - increased frequency and severity of extreme weather events
  - physical hazards such as flooding
  - chronic drought risk; and
  - more severe hurricane risk.

These are explained on pages 59 to 65 in the required Task Force for Climate related Financial Disclosures, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in note 2, *Accounting estimates and judgements*, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Our audit effort in considering climate change was focused on evaluating management's assessment of the impact of physical and transition climate risk, and ensuring that the effects of material climate risks disclosed on pages 62 and 63 have been appropriately reflected in asset values and associated disclosures where values are determined through modelling future cash flows, being goodwill and intangible assets impairment assessment (note 11) and the recoverability of deferred tax assets (note 22). We also challenged the Directors' considerations of climate change in their assessment and disclosure of going concern (note 1) and viability.

Whilst the group have stated their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2040, the group are currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these financial statements.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk | Our response to the risk |
|---|---|
| **Revenue recognition, including management override of controls (2022: £32,551m, 2021: £32,791m)**<br>Tobacco revenue is an area of focus for stakeholders interested in the performance of the company against an industry backdrop of declining global sales volumes.<br><br>Most of the group's sales arrangements require little judgement to be exercised, with revenue being recognised on the delivery of goods. However, there is a risk that management may override controls to intentionally misstate revenue transactions by recording fictitious manual journals to revenue (e.g. by inappropriate rebate accounting).<br><br>There is also a risk of error relating to the accounting for non-routine transactions. Due to the size of the revenue balance, even errors representing a relatively small proportion could lead to material misstatement of profit.<br><br>In addition, the impact of promotional activity around period ends leading to trade loading can have a material impact on performance in the following period. This anticipated impact, if material, should be described in the front half of the annual report to provide investors with a fair and balanced understanding of the drivers of business performance.<br><br>Refer to the audit committee report (page 126); accounting policies (note 1); accounting estimates and judgements (note 2); and segmental information (note 3) of the consolidated financial statements. | We have reviewed Imperial's Code of Conduct, Speaking-up, and Fraud risk management policies in order to evaluate the 'tone at the top'.<br><br>We obtained an understanding of the revenue process and understood how Imperial's revenue recognition policies are applied. We also assessed the processes and key controls over rebate accounting, by walking through the process from identification to recording.<br><br>We reviewed the group revenue recognition policies, as documented in the group Accounting Manual, for compliance with IFRS 15 'Revenue from contracts with customers'.<br><br>We discussed and reviewed key contractual arrangements with management and obtained relevant documentation, including those in respect of rebate arrangements.<br><br>As part of our overall revenue recognition testing, for Tobacco & NGP components with revenue in scope, we used data analytics techniques. This included testing the occurrence of revenue by analysing the correlation of journal entries posted to revenue with journals posted to accounts receivables and then subsequently as cash receipts. We validated cash receipt postings by tracing to bank statements on a sample basis. This provided us with a high level of assurance over £17.6 billion (75%) of Tobacco & NGP revenue recognised by the group. For one in-scope component where we did not use data analysis techniques, we performed substantive tests of detail, including procedures to identify fictitious manual journals and non-routine transactions to ensure these were appropriately recorded.<br><br>For the Distribution component, we performed a combination of tests of controls and substantive tests of detail to obtain assurance over £8.5 billion (87%) of Distribution revenue recognised by the group.<br><br>We performed detailed, disaggregated, analytical review to identify unusual trends and inventory positions at all full and specific scope locations. Our procedures focused on variances in receivable days and customers rebates/discounts at period ends, which could represent inventory being 'pushed' into the channel.<br><br>We reviewed external factors for indicators of trade pull factors with a focus on full scope and high-risk markets.<br><br>We made inquiries outside of finance to identify instances of late or unusual requests for shipments or extensions of credit terms.<br><br>On a sample basis, we obtained third party confirmations of trade terms from customers to assess for indicators of trade loading, where relevant, such as unusual sales patterns, rebates/discounts or increased receivable days at period-ends. We performed appropriate alternative procedures where confirmations were requested and not received, including reviewing contracts and recalculating rebates, validating the inputs of management's calculations, and tracing rebate provision amounts to post year end settlements. |

| Risk | Our response to the risk |
|---|---|
| | Our remaining procedures, applicable to all full and specific scope components included the following:<br>• Cut-off testing for a sample of revenue transactions near the period end to check that they were recognised in the appropriate period;<br>• Targeted manual journal entry testing in response to the risk of fraud; and,<br>• Review of disclosures against the requirements of IFRS 15<br>The audit procedures performed to address this risk were performed by component and shared service centre teams and reviewed by the group team. |

**Key observations communicated to the Audit Committee**

Based on the procedures performed, including those in respect of manual adjustments to revenue, we did not identify any evidence of material misstatement in the revenue recognised during the year.

| | |
|---|---|
| **Measurement and classification of adjusting items**<br>A number of Alternative Performance Measures (APMs) are used in the annual report, including adjusted measures that are linked to executive remuneration. There is a risk that management could override controls by classifying costs as adjusting that do not meet the criteria as defined by group policy to manipulate KPIs which have a bearing on remuneration. In the current year we identified the following adjusting items as areas of focus:<br>• Incorrect classification of items as restructuring costs, including Project Novo, in order to manipulate the adjusted operating profit metric;<br>• Errors relating to working capital metrics, particularly focused on inappropriate cash cut-off to manipulate working capital and therefore the adjusted operating cash conversion metric<br>Refer to the audit committee report (page 123); accounting policies (note 1); accounting estimates and judgements (note 2); restructuring provision (note 5) of the consolidated financial statements; and the supplementary information. | **Measurement and classification of adjusting items**<br>We considered the appropriateness of the APM policy implemented by management, including how this linked to metrics which impact management remuneration, with reference to FRC guidance and recent thematic reviews.<br>We assessed the APM policy for alignment with ESMA guidance, specifically:<br>• The clarity of definitions and explanations for the use of APMs;<br>• adequacy of reconciliations to GAAP measures;<br>• equal prominence to GAAP measures; and<br>• consistency of application, including explanations for any changes.<br>In respect of our focus on restructuring costs, we have:<br>• Challenged the classification and timing of recognition of one-off costs as adjusting and evaluated the one-off adjustments for indicators of management bias; in particular, whether both income and expense items are treated consistently.<br>• We tested the completeness and accuracy of restructuring costs including verifying that IAS 37 criteria had been correctly met. We also verified that the company's accounting policy, including the treatment of all restructuring costs as adjusting, was appropriately approved by the Audit Committee.<br>In respect of our focus on working capital metrics, we have:<br>• performed cut-off testing at year end on working capital balances to a lower testing threshold. Namely, on trade receivables, inventory and trade payables to ensure that working capital metrics are not recorded pre year end and then reversed post year end to manipulate the adjusted operating cash conversion metric.<br>• performed detailed, disaggregated analytical review to identify unusual trends and positions in key significant accounts such as cash, trade receivables, trade payables and inventory to identify potential manipulation of these balances that would influence working capital balances.<br>• Made inquires outside of finance, for example with Sales, to identify any unusual and new arrangements entered into during the last quarter of Imperial's financial year to assess if these are being manipulated to flatter working capital.<br>We reviewed the annual report disclosures, including Imperial's management rationale for treating as adjusting, whether equal prominence had been given with statutory measures and the transparency of the reconciliation of statutory measures to APM's. |

**Key observations communicated to the Audit Committee**

We confirmed that the APM policy is substantially aligned to ESMA guidance, with the basis for use and reconciliation to GAAP measures appropriately disclosed in the annual report.

We consider that restructuring costs and provisions are materially correct and disclosed appropriately.

Following our procedures performed over working capital metrics, we consider these balances are materially correct.

| Risk | Our response to the risk |
|---|---|
| **Uncertain tax positions (Provision for uncertain tax positions – 2022: £148m, 2021: £306m)**<br>The global nature of the group's operations results in complexities in the payment of, and accounting for, tax.<br><br>Management applies judgement in assessing tax exposures in each jurisdiction, many of which require interpretation of local tax laws.<br><br>Given this judgement, there is a risk that tax provisions are misstated.<br><br>Refer to the audit committee report (page 125); accounting policies (note 1); accounting estimates and judgements (note 2); and tax disclosure (note 7) of the consolidated financial statements. | We understood:<br>• the group's process for determining the completeness and measurement of provisions for tax;<br>• the methodology for the calculation of the tax charge; and<br>• management's controls over tax reporting.<br><br>The group audit team, including tax specialists, evaluated the tax positions taken by management in each significant jurisdiction in the context of local tax law, correspondence with tax authorities and the status of any tax audits. Our assessment included consideration of the past outcome of comparable cases and look-back analysis on management's historic provisioning for uncertain tax positions. Our work utilised additional support from country tax specialists in France, Germany, Malta, Netherlands and the USA.<br><br>We assessed the group's transfer pricing judgements, considering the way in which we observed the group's businesses operating and the correspondence and agreements reached with tax authorities.<br><br>We developed our own independent range of potential provisions for the group's transfer pricing tax exposures, based on the evidence we obtained, and compared management's provision to our range.<br><br>We assessed the group's judgement relating to the UK CFC's State Aid investigations, including holding discussions with management's legal advisors.<br><br>We assessed whether the group's disclosures, detailing the year end status of material open tax inquiries, adequately disclose relevant facts and circumstances and potential liabilities of the group.<br><br>The audit procedures were designed and led by the group audit team, with support from component teams whose work was reviewed by the group audit team. |

**Key observations communicated to the Audit Committee**

Based on the procedures performed, we consider the amounts provided are reasonable. We consider the group's tax disclosures are also appropriate.

We conclude that the group's approach to judgements for uncertain tax positions is balanced and that the approach in calculating the transfer pricing provisions is reasonable based on our assessment of the range of potential outcomes and the latest status of tax audits.

| Risk | Our response to the risk |
|---|---|
| **Litigation**<br>There are a number of ongoing legal cases in different jurisdictions relating to competition, product liability, intellectual property and commercial litigation. Significant judgements are involved in determining the likelihood of a probable outflow occurring from legal cases, together with the estimate of the likely financial cost. The group's assessment includes evaluating the relevant law, historical and pending court rulings with the support of legal counsel.<br><br>Given the judgements and the significance of the amounts involved, there is a risk that legal provisions are misstated or that contingent liabilities are inadequately disclosed.<br><br>Specifically, our audit risk relates to legal cases for which the financial cost to the business could be material if the potential exposures were to be realised, and any cases which could indicate non-compliance with the legal and regulatory frameworks with which the group is required to comply.<br><br>Refer to the audit committee report (page 125); accounting policies (note 1); accounting estimates and judgements (note 2), and contingent liabilities (note 29) of the consolidated financial statements. | We assessed the processes and controls over litigation operated by management at group, by walking through the process from identification of potential litigation to the evaluation of probability of outcome and the quantification and recording of a provision or disclosure of a contingent liability.<br><br>We inspected Imperial's litigation log and communications to the Executive Leadership Team and met with group Finance, group General Legal Counsel and the group's external legal counsel to discuss the developments in significant cases.<br><br>We requested, received and read letters received directly from the management's external legal counsel that evaluated the current status of legal proceedings and independently quantified the estimate of any economic outflow arising from settlement of the litigation. For certain cases we involved legal specialists or met with external legal counsel to further our understanding and assess potential outcomes.<br><br>We evaluated whether any of the fines levied or ongoing litigation cases gave rise to evidence that there had been instances of non-compliance with the relevant laws and regulations.<br><br>We assessed whether the group's disclosures detailing contingent liabilities and financial commitments adequately disclose relevant facts and circumstances and potential liabilities of the group.<br><br>The audit procedures were designed and led by the group audit team, with support from component teams whose work was reviewed by the group audit team. |

**Key observations communicated to the Audit Committee**

Having met with internal Legal Counsel and received responses from external lawyers, we consider that where an economic outflow is probable management have appropriately recorded a provision. For those cases which we consider meet the criteria of a contingent liability we concluded that sufficient disclosure exists in the annual report to allow users to understand the range of exposures facing the company, where that is possible.

In the prior year, our auditor's report included a key audit matter in relation to the carrying value of NGP intangible assets. In the current year, the continued amortisation of such assets and absence of additions meant this was no longer considered as significant for the financial statements as a whole.

In the prior year, our auditor's report included a key audit matter in relation to reporting performance. This year, the key audit matter has been refined to focus on the measurement and classification of adjusting items. We now focus on the manipulation of adjusted measures that are linked to executive remuneration, namely working capital balances that impact the adjusted operating cash conversion metric, and the classification of items as restructuring.

Both in the current year and prior year, our auditor's report includes key audit matters in relation to revenue recognition including management override, uncertain tax positions and litigation. The risk associated with these matters remained consistent with the prior year.

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the group to be £126 million (2021: £148 million), which is 5% of Profit before tax (2021: 5% of profit before tax, adjusted for one-off gain on disposal of subsidiaries). We believe that Profit before tax provides the most relevant performance measure to the stakeholders of the group.

We determined materiality for the Parent Company to be £309 million (2021: £275 million), which is 2% (2021: 2%) of net assets. In performing our procedures, materiality was capped at the group allocated materiality of £30 million (2021: £25 million).

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2021: 50%) of our planning materiality, namely £95 million (2021: £74 million). Performance materiality has increased to 75% this year as a result of a lower number of audit adjustments identified in the September 2021 audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £19 million to £30 million (2021: £7 million to £39 million).

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £6 million (2021: £7 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the annual report set out on pages 1-155, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

## Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 112;

- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 92 to 93;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 112;
- Directors' statement on fair, balanced and understandable set out on page 112;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 84 to 91;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 82 to 83; and;
- The section describing the work of the audit committee set out on page 119 to 120

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 155, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are frameworks which are directly relevant to specific assertions in the financial statements and are those that relate to the reporting framework (UK adopted international accounting standards, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax laws and regulations in the jurisdictions in which the group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety, employee matters and country-specific regulations on tobacco control.
- We understood how the group is complying with those frameworks by making inquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our inquiries through our review of board minutes, papers provided to the Audit Committee and attendance at meetings of the Audit Committee, as well as consideration of the results of our audit procedures across the group.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud and assessing whistleblowing incidences for those with a potential financial reporting impact. Where necessary, our procedures included our forensic investigation specialists. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of group management, those charged with governance and legal counsel, as well as journal entry testing, with a focus on manual consolidation journals and journals indicating significant or unusual transactions based on our understanding of the business. Through our testing we challenged the assumptions and judgements made by management in respect of significant one-off transactions in the financial year and significant accounting estimates as referred to in the key audit matters section above. At a component level, our full and specific scope component audit team's procedures included inquiries of component management; journal entry testing; and focused testing, including in respect of the key audit matter of revenue recognition. We also leveraged our data analytics

platform in performing our work on the order to cash and purchase to pay and inventory processes to assist in identifying higher risk transactions for testing. In addition, as a result of the sanctions imposed to Russia and Belarus companies and individuals, we have performed inquiries to understand Imperial's process to identify these and whether there were impacts to the business.

- Where we identified potential non-compliance with laws and regulations, we developed an appropriate audit response and communicated directly with components impacted. Our procedures involved: understanding the process and controls to identify non-compliance, inquiring of internal and external legal counsel, performing an analysis of press reporting on these matters, understanding the fact patterns in each case and documenting the positions taken by management, and using specialists to support us in concluding on the matters identified.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Other matters we are required to address

- Following the recommendation from the audit committee, we signed an engagement letter on 15 January 2020 which was subsequently replaced on 23 August 2022. We were appointed by the shareholders at the AGM on 5 February 2020 to audit the financial statements for the year ending 30 September 2020 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ending 2020 to 2022.

- The audit opinion is consistent with the additional report to the audit committee.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

**Andrew Walton (Senior statutory auditor)**
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

15 November 2022

## CONSOLIDATED INCOME STATEMENT
for the year ended 30 September 2022

| £ million unless otherwise indicated | Notes | 2022 | 2021 |
|---|---|---|---|
| **Revenue** | 3 | **32,551** | 32,791 |
| Duty and similar items | | **(15,644)** | (16,229) |
| Other cost of sales | | **(10,869)** | (10,535) |
| Cost of sales | | **(26,513)** | (26,764) |
| **Gross profit** | | **6,038** | 6,027 |
| Distribution, advertising and selling costs | | **(2,021)** | (2,118) |
| Administrative and other expenses | | **(1,334)** | (763) |
| **Operating profit** | 4 | **2,683** | 3,146 |
| Investment income | | **1,600** | 1,060 |
| Finance costs | | **(1,717)** | (979) |
| Net finance (costs)/income | | **(117)** | 81 |
| Share of (loss)/profit of investments accounted for using the equity method | 14 | **(15)** | 11 |
| **Profit before tax** | 4 | **2,551** | 3,238 |
| Tax | 7 | **(886)** | (331) |
| **Profit for the year** | | **1,665** | 2,907 |
| Attributable to: | | | |
| Owners of the parent | | **1,570** | 2,834 |
| Non-controlling interests | | **95** | 73 |
| **Earnings per ordinary share (pence)** | | | |
| – Basic | 9 | **165.9** | 299.9 |
| – Diluted | 9 | **164.7** | 299.1 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2022

| £ million | Notes | 2022 | 2021 |
|---|---|---|---|
| **Profit for the year** | | **1,665** | 2,907 |
| **Other comprehensive income** | | | |
| Exchange movements | | **841** | (680) |
| Exchange movements recycled to profit and loss upon disposal of subsidiaries | 10 | **190** | (337) |
| Hyperinflation adjustment in the year | 1 | **11** | – |
| Current tax on hedge of net investments and quasi-equity loans | | **148** | (105) |
| Deferred tax on hedge of net investments and quasi-equity loans | | **–** | (12) |
| Items that may be reclassified to profit and loss | | **1,190** | (1,134) |
| Net actuarial gains on retirement benefits | 23 | **76** | 41 |
| Current tax relating to net actuarial gains on retirement benefits | | **10** | 2 |
| Deferred tax relating to net actuarial gains on retirement benefits | | **(52)** | (21) |
| Items that will not be reclassified to profit and loss | | **34** | 22 |
| **Other comprehensive income/(loss) for the year, net of tax** | | **1,224** | (1,112) |
| **Total comprehensive income for the year** | | **2,889** | 1,795 |
| Attributable to: | | | |
| Owners of the parent | | **2,778** | 1,761 |
| Non-controlling interests | | **111** | 34 |
| **Total comprehensive income for the year** | | **2,889** | 1,795 |

## CONSOLIDATED BALANCE SHEET
at 30 September

| £ million | Notes | 2022 | 2021 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 11 | **17,777** | 16,674 |
| Property, plant and equipment | 12 | **1,659** | 1,715 |
| Right of use assets | 13 | **228** | 242 |
| Investments accounted for using the equity method | 14 | **56** | 88 |
| Retirement benefit assets | 23 | **826** | 1,046 |
| Trade and other receivables | 16 | **67** | 62 |
| Derivative financial instruments | 20/21 | **985** | 391 |
| Deferred tax assets | 22 | **439** | 564 |
| State aid tax recoverable | 7 | **–** | 101 |
| | | **22,037** | 20,883 |
| **Current assets** | | | |
| Inventories | 15 | **4,140** | 3,834 |
| Trade and other receivables | 16 | **2,543** | 2,749 |
| Current tax assets | 7 | **334** | 234 |
| Cash and cash equivalents | 17 | **1,850** | 1,287 |
| Derivative financial instruments | 20/21 | **54** | 68 |
| Current assets held for disposal | 10 | **–** | 35 |
| | | **8,921** | 8,207 |
| **Total assets** | | **30,958** | 29,090 |
| **Current liabilities** | | | |
| Borrowings | 19 | **(1,011)** | (1,107) |
| Derivative financial instruments | 20/21 | **(54)** | (62) |
| Lease liabilities | 13 | **(58)** | (57) |
| Trade and other payables | 18 | **(9,506)** | (9,106) |
| Current tax liabilities | 7 | **(307)** | (253) |
| Provisions | 24 | **(203)** | (188) |
| Current liabilities held for disposal | 10 | **–** | (35) |
| | | **(11,139)** | (10,808) |
| **Non-current liabilities** | | | |
| Borrowings | 19 | **(8,996)** | (8,715) |
| Derivative financial instruments | 20/21 | **(1,072)** | (984) |
| Lease liabilities | 13 | **(190)** | (194) |
| Trade and other payables | 18 | **(10)** | (7) |
| Deferred tax liabilities | 22 | **(961)** | (1,037) |
| Retirement benefit liabilities | 23 | **(894)** | (1,199) |
| Provisions | 24 | **(223)** | (206) |
| | | **(12,346)** | (12,342) |
| **Total liabilities** | | **(23,485)** | (23,150) |
| **Net assets** | | **7,473** | 5,940 |
| **Equity** | | | |
| Share capital | 25 | **103** | 103 |
| Share premium and capital redemption | | **5,837** | 5,837 |
| Retained earnings | | **(443)** | (788) |
| Exchange translation reserve | | **1,363** | 200 |
| **Equity attributable to owners of the parent** | | **6,860** | 5,352 |
| Non-controlling interests | | **613** | 588 |
| **Total equity** | | **7,473** | 5,940 |

The financial statements on pages 166 to 244 were approved by the Board of Directors on 15 November 2022 and signed on its behalf by:

**LUKAS PARAVICINI**
DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2022

| £ 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 |
|---|---|---|---|---|---|---|---|
| **At 30 September 2021** | **103** | **5,837** | **(788)** | **200** | **5,352** | **588** | **5,940** |
| **Hyperinflation restatement to 1 October 2021** | **–** | **–** | **22** | **–** | **22** | **–** | **22** |
| **At 1 October 2021** | **103** | **5,837** | **(766)** | **200** | **5,374** | **588** | **5,962** |
| Profit for the year | **–** | **–** | **1,570** | **–** | **1,570** | **95** | **1,665** |
| Exchange movements on retranslation of net assets | **–** | **–** | **–** | **1,518** | **1,518** | **16** | **1,534** |
| Exchange movements on net investment hedges | **–** | **–** | **–** | **(649)** | **(649)** | **–** | **(649)** |
| Exchange movements on quasi-equity loans | **–** | **–** | **–** | **(44)** | **(44)** | **–** | **(44)** |
| Exchange movements recycled to profit and loss upon disposal of subsidiaries | **–** | **–** | **–** | **190** | **190** | **–** | **190** |
| Hyperinflation adjustment in the year | **–** | **–** | **11** | **–** | **11** | **–** | **11** |
| Current tax on hedge of net investments and quasi-equity loans | **–** | **–** | **–** | **148** | **148** | **–** | **148** |
| Net actuarial gains on retirement benefits | **–** | **–** | **76** | **–** | **76** | **–** | **76** |
| Current tax relating to net actuarial gains on retirement benefits | **–** | **–** | **10** | **–** | **10** | **–** | **10** |
| Deferred tax relating to net actuarial gains on retirement benefits | **–** | **–** | **(52)** | **–** | **(52)** | **–** | **(52)** |
| Other comprehensive income | **–** | **–** | **45** | **1,163** | **1,208** | **16** | **1,224** |
| **Total comprehensive income** | **–** | **–** | **1,615** | **1,163** | **2,778** | **111** | **2,889** |
| **Transactions with owners** | | | | | | | |
| Costs of employees' services compensated by share schemes | **–** | **–** | **29** | **–** | **29** | **–** | **29** |
| Changes in non-controlling interests | **–** | **–** | **(3)** | **–** | **(3)** | **3** | **–** |
| Deferred tax on share based payments | **–** | **–** | **2** | **–** | **2** | **–** | **2** |
| Dividends paid | **–** | **–** | **(1,320)** | **–** | **(1,320)** | **(89)** | **(1,409)** |
| **At 30 September 2022** | **103** | **5,837** | **(443)** | **1,363** | **6,860** | **613** | **7,473** |
| | | | | | | | |
| **At 1 October 2020** | 103 | 5,837 | (2,364) | 1,295 | 4,871 | 647 | 5,518 |
| Profit for the year | – | – | 2,834 | – | 2,834 | 73 | 2,907 |
| Exchange movements on retranslation of net assets | – | – | – | (1,034) | (1,034) | (39) | (1,073) |
| Exchange movements on net investment hedges | – | – | – | 476 | 476 | – | 476 |
| Exchange movements on quasi-equity loans | – | – | – | (83) | (83) | – | (83) |
| 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 | – | – | – | (105) | (105) | – | (105) |
| Deferred tax hedge of net investments and quasi-equity loans | | | – | (12) | (12) | – | (12) |
| Net actuarial gains on retirement benefits | – | – | 41 | – | 41 | – | 41 |
| Current tax relating to net actuarial gains on retirement benefits | – | – | 2 | – | 2 | – | 2 |
| Deferred tax relating to net actuarial gains on retirement benefits | – | – | (21) | – | (21) | – | (21) |
| Other comprehensive income/(expense) | – | – | 22 | (1,095) | (1,073) | (39) | (1,112) |
| **Total comprehensive income/(expense)** | – | – | 2,856 | (1,095) | 1,761 | 34 | 1,795 |
| **Transactions with owners** | | | | | | | |
| Costs of employees' services compensated by share schemes | – | – | 25 | – | 25 | – | 25 |
| Dividends paid | – | – | (1,305) | – | (1,305) | (93) | (1,398) |
| **At 30 September 2021** | 103 | 5,837 | (788) | 200 | 5,352 | 588 | 5,940 |

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September 2022

| £ million | 2022 | 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit | **2,683** | 3,146 |
| Dividends received from investments accounted for under the equity method | **7** | 4 |
| Depreciation, amortisation and impairment | **660** | 815 |
| Loss on disposal of non-current assets | **–** | 2 |
| Loss/(profit) on disposal of subsidiaries | **428** | (281) |
| Post-employment benefits | **(56)** | (63) |
| Costs of employees' services compensated by share schemes | **29** | 25 |
| Fair value adjustment to financial assets | **37** | (15) |
| Movement in provisions | **39** | 18 |
| Operating cash flows before movement in working capital | **3,827** | 3,651 |
| (Increase)/decrease in inventories | **(195)** | 70 |
| Decrease/(increase) in trade and other receivables | **89** | (201) |
| Increase/(decrease) in trade and other payables | **146** | (533) |
| Movement in working capital | **40** | (664) |
| Tax paid | **(681)** | (820) |
| **Net cash flows generated from operating activities** | **3,186** | 2,167 |
| **Cash flows from investing activities** | | |
| Interest received | **8** | 15 |
| Proceeds from the sale of non-current assets | **53** | 50 |
| Proceeds from sale of subsidiaries, net of cash disposed of (note 10) | **27** | 845 |
| Purchase of non-current assets | **(230)** | (200) |
| Purchase of brands and operations (note 10) | **(13)** | – |
| **Net cash (used in)/generated from investing activities** | **(155)** | 710 |
| **Cash flows from financing activities** | | |
| Interest paid | **(366)** | (415) |
| Purchase of shares by Employee Share Ownership Trusts | **(1)** | – |
| Lease liabilities paid | **(68)** | (69) |
| Increase in borrowings | **1,710** | 858 |
| Repayment of borrowings | **(2,476)** | (2,224) |
| Cash flows relating to derivative financial instruments | **94** | 41 |
| Dividends paid to non-controlling interests | **(89)** | (93) |
| Dividends paid to owners of the parent | **(1,320)** | (1,305) |
| **Net cash used in financing activities** | **(2,516)** | (3,207) |
| **Net increase/(decrease) in cash and cash equivalents** | **515** | (330) |
| **Cash and cash equivalents at start of year** | **1,287** | 1,626 |
| Effect of foreign exchange rates on cash and cash equivalents | **48** | (9) |
| **Cash and cash equivalents at end of year** | **1,850** | 1,287 |

## 1. ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements comprise the results of the Company, a public company limited by shares, incorporated in England and Wales, and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements. The Company's registered number is 3236483 and its registered address is 121 Winterstoke Road, Bristol, BS3 2LL.

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards ("UK-adopted IAS").

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 consolidated financial statements are presented in pounds sterling, the presentation currency of the Group, and the functional currency of the Company. All values are rounded to the nearest one million (£1 million) except where otherwise indicated.

### Adjusted performance measures

During the year the Group conducted a review of Adjusted Performance Measure (APM) metrics within the Annual Report and Accounts. The aim of the review was to increase transparency as to the definition of APMs and to ensure that reconciliations to IFRS-based measures were presented in a consistent and understandable format. Information on APMs is now presented within the Supplementary Information section of this document. As part of the changes key adjusting items within administration costs which were previously shown on the face of the Group Income Statement are now set out within the APM disclosures area.

### Basis for going concern

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

The Group recognises uncertainty of the external environment. Given the current macroeconomic situation, our plans include higher than historical inflation impact to cost of sales driven by commodity price increases, energy and logistic costs; as well as higher people costs. During the period of the Covid-19 pandemic as well as during the ongoing period of political uncertainty with regard to Ukraine and Russia, the Group effectively managed operations across the world, and has proved it has an established mechanism to operate efficiently despite uncertainty. The Directors consider that a one-off discrete event with immediate cash outflow is of greatest concern to short-term liquidity of the Group.

The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios that may affect the business. These included scenarios which examined the implications of:

- A one-off discrete event resulting in immediate cash outflow such as unexpected duty and tax payments; and/or other legal and regulatory risks materialising; of c. £1,000 million.
- A rapid and lasting deterioration to the Group's profitability because markets become closed to tobacco products or there are sustained failures to our tobacco manufacturing and supply chains. These assumed a permanent reduction in profitability of 15% from 1 October 2022.
- The additional impact of potential bad debt risks arising from a recession of c. £220 million.
- The withdrawal of facilities that provide receivables factoring of c. £560 million.

The scenario planning also considered mitigation actions including reductions to capital expenditure, dividend payments and share buyback programme. 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 the worst-case scenario, where the largest envisaged downside scenarios all take place at the same time the Group would have sufficient headroom until December 2023. The Group believes this worst-case scenario to be highly unlikely given the relatively small impact on our trading performance and bad debt levels during the Covid-19 pandemic. In this scenario Group would implement a number of mitigating actions including revoking the uncommitted dividend, pausing share buyback and reducing discretionary spend such as capex.

Based on its review of future cash flows covering the period through to March 2024, 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 their operational needs from the date of this Report through to 31 March 2024 and concludes that it is appropriate to prepare the financial statements on a going concern basis.

Imperial Brands PLC (the Company) provides guarantees to a number of subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK and Ireland, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2022. See note VII Guarantees of the Imperial Brands Plc financial statements for further details.

The principal accounting policies, which have been applied consistently other than where new policies (detailed below) have been adopted, are set out below.

### Basis of consolidation

Subsidiaries are those entities controlled by the Group. Control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

### Joint ventures

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The financial statements of joint ventures are included in the Group financial statements using the equity accounting method, with the Group's share of net assets included as a single line item entitled 'Investments accounted for using the equity method'. In the same way, the Group's share of earnings is presented in the consolidated income statement below operating profit entitled 'Share of (loss)/profit of investments accounted for using the equity method'.

### Foreign currency

Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

The income and cash flow statements of Group companies using non-sterling functional currencies are translated to sterling (the Group's presentational currency) at average rates of exchange in each period. Assets and liabilities of these companies are translated at rates of exchange ruling at the balance sheet date. The differences between retained profits and losses translated at average and closing rates are taken to reserves, as are differences arising on the retranslation of the net assets at the beginning of the year.

Transactions in currencies other than a company's functional currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs unless as a result of net investment hedging they are reported in other comprehensive income.

The Group designates as net investment hedges certain external borrowings and derivatives up to the value of the net assets of Group companies that use non-sterling functional currencies after deducting permanent intercompany loans. Gains or losses on these hedges that are regarded as highly effective are transferred to other comprehensive income, where they offset gains or losses on translation of the net investments that are recorded in equity, in the exchange translation reserve.

The Group's financial results are principally exposed to euro and US dollar exchange rates, which are detailed in the table below.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| Foreign exchange rate versus GBP | **Closing rate** | **Average rate** | Closing rate | Average rate |
| EUR | **1.1325** | **1.1807** | 1.1621 | 1.1451 |
| USD | **1.1040** | **1.2813** | 1.3456 | 1.3690 |

### Revenue recognition

For the Tobacco & Next Generation Products (Tobacco & NGP) business, Revenue comprises the invoiced value for the sale of goods net of sales taxes, rebates and discounts. Revenue is based on the completion of performance obligations that constitute the delivery of goods. The performance obligation is recognised as complete at the point in time when a Group company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. The distribution business also recognises revenue associated with logistics services, recognised on the basis of the invoiced value for the provision of these services net of sales taxes, rebates and discounts. The performance obligations associated with distribution services, which include fees for distributing certain third party products, are linked to the successful distribution of products for customers.

The Group recognises income arising from the licensing of intellectual property, occurring in the ordinary course of business, which is treated as revenue. Licensing revenue will be recognised over the period of the licence. The licences granted are distinct from other promises in the contract.

For the Distribution business, revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts when goods have been delivered or distribution services have been provided. The Distribution business only recognises commission revenue on purchase and sale transactions in which it acts as a commission agent. Distribution and marketing commissions are included in revenue. Revenue is recognised on products on consignment when these are sold by the consignee.

Payments are made to both direct and indirect customers for rebates, discounts and other promotional activities. Direct customers are those to which the Group supplies goods or services. Indirect customers are other entities within the supply chain to the end consumer. Rebates and discounts are deducted from Revenue. Where the contract with customers has an entitlement to variable consideration due to the existence of retrospective rebates and discounts, revenue is estimated based on the amount of consideration expected to be received. This estimation is a determination of the most likely amount to be received using all known factors including historic experience. Typically there is a high degree of certainty over the amount of retrospective rebates/discounts paid due to relatively low year on year variations in the volume and pattern of product sales. As the provision of distribution services typically involves product delivery tasks undertaken in a short period of time, revenue and any associated rebates and discounts relating to these services do not normally span an accounting year end.

Payments for promotional activities will also be deducted from Revenue where the payments relate to goods or service that are closely related to or indistinct from associated sales of goods or services to that customer. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (i.e. excluded from revenues reported in the Group's consolidated income statement).

### Duty and similar items

Duty and similar items includes duty and levies having the characteristics of duty. In countries where duty is a production tax, duty is included in revenue and in cost of sales in the consolidated income statement. Duty is regarded as a sales tax and excluded from revenue where:

- duty becomes payable to the tax authority when the goods are sold;
- there is an obligation to change the sales price when a change in the rate of duty is imposed; and
- there is a requirement to identify the duty separately on sales information such as invoices.

Payments made in the USA under the Master Settlement Agreement are recognised in other cost of sales, for further disclosure see note 29 contingent liabilities.

### Taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Uncertain tax positions are assessed and measured on an issue by issue basis within the jurisdictions in which we operate using management's estimate of the most likely outcome. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach. The Group recognises interest on late paid taxes as part of financing costs. The Group recognises penalties, if applicable, as part of administrative and other expenses.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

### Intangible assets – goodwill

Goodwill represents the excess of value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the consolidated income statement and cannot be subsequently reversed. If any negative goodwill arises this is recognised immediately in the income statement. For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

### Intangible assets – other

Other intangible assets are initially recognised in the consolidated balance sheet at historical cost unless they are acquired as part of a business combination, in which case they are initially recognised at fair value. They are shown in the balance sheet at historical cost less accumulated amortisation and impairment. The Group does not operate a revaluation model and therefore assets are not subject to ongoing revaluations.

These assets consist mainly of acquired trademarks, intellectual property, product development, concessions and rights, acquired customer relationships and computer software. The Davidoff cigarette trademark is considered by the Directors to have an indefinite life based on the fact that it is an established international brand with global potential. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. The carrying value of Davidoff is subject to an annual impairment review under the requirements of IAS 36 as the Group does not currently foresee a limit to the period over which the asset is expected to generate net cash inflows. The most recent assessment indicates that the carrying value is not impaired.

Intellectual property (including trademarks), product development, supply agreements (including customer relationships) and computer software are amortised over their estimated useful lives as follows:

| | | |
|---|---|---|
| Intellectual property | 5 – 30 years | straight line |
| Supply agreements | 3 – 15 years | straight line |
| Software | 3 – 10 years | straight line |
| Product development | 3 – 10 years | straight line |

### Property, plant and equipment

Property, plant and equipment are recognised in the consolidated balance sheet at historical cost or at their initial fair value where they are acquired as part of an acquisition, subject to depreciation or impairment. The Group does not operate a revaluation model and therefore assets are not subject to ongoing revaluations.

Land is not depreciated. Depreciation is provided on other property, plant and equipment so as to write down the initial cost of each asset to its residual value over its estimated useful life as follows:

| | | |
|---|---|---|
| Property | up to 50 years | straight line |
| Plant and equipment | 2 – 20 years | straight line/reducing balance |
| Fixtures and motor vehicles | 2 – 15 years | straight line |

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each balance sheet date.

### Financial instruments and hedging

Receivables held under a hold to collect business model are stated at amortised cost. Receivables held under a hold to sell business model, which are expected to be sold via a non-recourse factoring arrangement are separately classified as fair value through profit or loss, within trade and other receivables.

The calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange and interest rate risks. The Group does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the consolidated balance sheet at fair value, and include accrued interest receivable and payable where relevant. However, as the Group has decided (as permitted under IFRS 9) not to cash flow or fair value hedge account for its derivative financial instruments, changes in fair values are recognised in the consolidated income statement in the period in which they arise unless the derivative qualifies and has been designated as a net investment hedging instrument in which case the changes in fair values, attributable to foreign exchange, are recognised in other comprehensive income.

Collateral transferred under the terms and conditions of collateral appendix documents in respect of certain derivatives are netted off the carrying value of those derivatives in the consolidated balance sheet.

### Right of use assets

The Group has lease contracts relating to property and other assets (which predominantly relates to motor vehicles).

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

### Lease liabilities

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

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

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

### Short-term leases, leases of low value assets and practical expedients applied

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

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

IFRS 16 was applied using the modified retrospective method, to contracts that were previously identified as operating leases in accordance with IAS 17 and IFRIC 4. The Group has elected to;

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

These elections were only applied on transition to IFRS 16 and have not been applied to new leases following adoption of the standard.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory is considered for obsolescence or other impairment issues and an associated provision is booked where necessary.

Leaf tobacco inventory which has an operating cycle that exceeds 12 months is classified as a current asset, consistent with recognised industry practice.

### Provisions

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle that obligation, and a reliable estimate of the amount can be made.

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been publicly announced, and it is more likely than not that the plan will be implemented, and the amount required to settle any obligations arising can be reliably estimated. Future operating losses are not provided for.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group. Contingent liabilities are not recognised, only disclosed, unless the possibility of a future outflow of resources is considered remote, or where a disclosure would seriously prejudice the position of the Group.

### Retirement benefit schemes

For defined benefit schemes, the amount recognised in the consolidated balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets to the extent that they are demonstrably recoverable either by refund or a reduction in future contributions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in operating profit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time.

All actuarial gains and losses, including differences between actual and expected returns on assets and differences that arise as a result of changes in actuarial assumptions, are recognised immediately in full in the statement of comprehensive income for the period in which they arise. An interest charge is made in the income statement by applying the rate used to discount the defined benefit obligations to the net defined benefit liability of the schemes.

For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

### Share-based payments

The Group applies the requirements of IFRS 2 Share-Based Payment Transactions to both equity-settled and cash-settled share-based employee compensation schemes. The majority of the Group's schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period, based on the number of instruments that are expected to vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions. Earnings per share and net revenue vesting conditions are reflected in the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value at each balance sheet date. Where applicable the Group recognises the impact of revisions to original estimates in the consolidated income statement, with a corresponding adjustment to equity for equity-settled schemes and current liabilities for cash-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

The Group funds the purchase of shares to satisfy rights to shares arising under share-based employee compensation schemes. Shares acquired to satisfy those rights are held in Employee Share Ownership Trusts. On consolidation, these shares are accounted for as a deduction from equity attributable to owners of the parent. When the rights are exercised, equity is increased by the amount of any proceeds received by the Employee Share Ownership Trusts.

### Treasury shares

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to owners of the parent until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases equity attributable to owners of the parent. When such shares are cancelled they are transferred to the capital redemption reserve.

Where the Group enters into a contract with a third party that contains an obligation to re-purchase its own shares for cash or another financial asset; a financial liability is recognised for the present value of the redemption amount. One example is an obligation under a forward contract to re-purchase shares in Imperial Brands PLC for cash. The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from equity. Subsequently, the financial liability is measured in accordance with IFRS 9, and is revalued at subsequent reporting points as appropriate. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity.

### Hyperinflation

The Turkish economy was designated hyperinflationary from April 2022. The Group has applied IAS 29 Financial Reporting in Hyperinflationary Economies to its Turkish operations from the beginning of the 2022 financial year. IAS 29 requires that hyperinflationary adjustments are reflected from the start of the reporting period in which it is applied. For the Group's Turkish operations this is 1 October 2021. In accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates, the comparative figures for the year ended 30 September 2021 have not been modified. The adjustments required by IAS 29 are set out below.

- Adjustment of historical cost non-monetary assets and liabilities from their date of initial recognition to the balance sheet date to reflect the changes in purchasing power of the currency caused by inflation, as measured by the official Consumer Price Index (CPI) published by the Turkish Statistical Institute (TurkStat).
- Adjustment of the components of the income statement and cash flow statement for the inflation index since their generation, with a balancing entry in the income statement and a reconciling item in the cash flow statement, respectively.
- Adjustment of the income statement to reflect the impact of inflation on holding monetary assets and liabilities in local currency, where necessary.
- The financial statements of the Group's Turkish operations have been translated into Sterling at the closing exchange rate at 30 September 2022.
- The impact of adjustments to non-monetary assets recognising inflation from the adoption date to the closing balance sheet date, on translation into Sterling at the closing balance sheet rate has been recognised within Other Comprehensive Income.
- The cumulative impact corresponding to previous years has been reflected directly in equity as an adjustment to the opening retained earnings reserve at 1 October 2021.

The TurkStat CPI index was 570.66 at 30 September 2021 and 1,046.89 at 30 September 2022. The inflation index for the year is therefore 1.8345. The Turkish economy has been designated hyperinflationary since April 2022, but the impact on the Group's results remains immaterial.

### New accounting standards

The following amendments to the accounting standards, issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) and endorsed for use in the UK, have been adopted by the Group from 1 October 2021 with no impact on the Group's consolidated results, financial position or disclosures:

- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 2) (effective in the year ending 30 September 2022)

Following the announcement of the discontinuation of GBP LIBOR at the end of 2021 and USD LIBOR discontinuation in 2023, the Group has amended its bank facility agreement to stop referencing GBP and USD LIBOR and instead reference the daily risk free rates of SONIA and SOFR respectively. All GBP LIBOR derivatives were changed to reference SONIA instead of GBP LIBOR. All USD LIBOR derivatives will be changed to reference SOFR instead of USD LIBOR during the remainder of calendar year 2022. There are no changes pending for euro derivatives. No temporary reliefs or practical expedients were required to be taken by the Group.

### New accounting standards and interpretations not yet in issue

There are also a number of other amendments and clarifications to IFRS, effective in future years, none of which are expected to significantly impact the Group's consolidated results or financial position.

## 2. 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.

### Significant estimates

Companies are required to state whether estimates have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. We have reviewed the items below where estimation uncertainty exists. While a number of these areas do involve estimation of the carrying value of assets or liabilities that are potentially significant within the context of the financial statements the Group considers the probability of a significant risk of material adjustment to be low. None of these estimates are expected to present a material adjustment to the carrying amount of assets and liabilities in the next financial year. Therefore, no significant estimates are required to be disclosed.

### Other estimates

Other estimates involve other uncertainties, such as those carrying lower risk, which have a smaller potential impact or would be expected to crystallise over a longer timeframe than a significant estimate. These items, listed below, are only disclosed where this provides material relevant information.

#### Determination of useful economic life of intangible assets

For non-goodwill intangible assets, there is a need to estimate the useful economical life of each asset. This includes determining whether the asset has an indefinite useful economic life, or not. The Davidoff trademark has a significant market share and positive cash flow growth expectations. There are no regulatory or contractual restrictions on the use of this trademark, and there are no plans to significantly redirect resources elsewhere which would reduce the value of this asset. Consequently, in the view of management, the Davidoff trademark does not have a foreseeable and definite end to its ability to generate future cash flows and hence it is not amortised. The carrying value of Davidoff is subject to an annual impairment review under the requirements of IAS 36. The most recent assessment indicates that the carrying value is not impaired.

#### Amortisation and impairment of intangible assets

For non-indefinite life assets, which are amortised, the useful economic life and recoverable amounts are estimated based upon the expectation of the time period during which an intangible asset will support future cash flows, and the quantum of those cash flows. Due to estimation uncertainties the useful economic lives and associated amortisation rates have to be reviewed and revised where necessary. In addition, where there are indications that the current carrying value of an intangible asset is greater than its recoverable amount, an impairment to the carrying value of the asset may be required. Factors considered important that could trigger an impairment review of intangible assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets can affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions significantly change it is possible that materially different amounts could be reported in the Group's financial statements in future periods. Indefinite life intangible assets, including goodwill, are subject to annual impairment testing where an assessment of the carrying value of the asset against its recoverable amount is undertaken. There are long term uncertainties associated with estimating the value of the recoverable amount, particularly with regard to long term cash flow growth rates which are influenced by the future size and shape of the tobacco sector. While long term growth rates currently used in impairment assessments are based on current best estimates of future performance, there may be changes in these assumptions when conducting impairment tests in subsequent years. Details of goodwill and intangible asset impairment assessments are included in note 11.

#### Corporate income taxes

Where tax liabilities have been judged to exist, estimation is often required to determine the potential future tax payments. The Group is subject to tax in numerous jurisdictions and significant judgement is required in determining the provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made. Consideration of the valuation estimates related to tax provisions are given in note 7 to these financial statements.

### Legal proceedings and disputes

Where a liability is determined there can be a degree of estimation of the potential level of damages expected. Key areas of estimation uncertainty include consideration as to the expected future amount to be paid out in the event the claim succeeds. In some situations where a probability risk calculation is required to determine the amount of an associated provision, both the quantum of future payments and the probability of those payments crystallising needs to be considered, both factors having a degree of uncertainty. More detail as to the considered position of these claims is given in note 29 of the financial statements. To the extent that the Group's assessments at any time do not reflect subsequent developments or the eventual outcome of any claim, its future financial statements may be materially affected, with a favourable or adverse impact upon the Group's operating profit, financial position and liquidity.

### Restructuring provisions

The Group holds restructuring provisions where appropriate in respect of estimated future economic outflows which arise due to past events. Estimates are based on information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate. These provisions cover the cost of factory closures, scaling down of capacity and other structural changes to the business. These programmes are run as discrete projects with controls over the expected costs and the associated accounting impacts. The calculation of restructuring provisions includes estimation challenges relating to asset remediation costs, the valuation of disposals and termination costs. More details relating to the estimates associated with these restructuring programmes can be found in notes 5 and 24.

## Judgements

Paragraph 122 of IAS 1 requires disclosure of judgements made by management in applying an entity's accounting policies, other than those relating to estimation uncertainty. Paragraph 125 of IAS 1 requires more wide-ranging disclosures of judgements that depend on management assumptions about the future, and other major sources of estimation uncertainty ('Significant Judgements').

### Corporate income taxes

Judgement is involved in determining whether the Group is subject to a tax liability or not in line with tax law. The Group is subject to income tax in numerous jurisdictions and significant judgement is required in determining whether there is a liability requiring a provision for tax. Recognition of tax liabilities in situations where there is uncertainty is based on precedent in similar tax cases and external advice as to whether challenges by tax authorities are likely to result in future tax payments being made. The recognition of a tax liability involves consideration of the probability of tax authorities would accept the position taken in the tax return and there is therefore some uncertainty.

### Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the temporary differences, losses and credits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Group has determined that it cannot recognise deferred tax assets on the temporary differences, tax losses and tax credits carried forward for certain subsidiaries. Further details of the estimates related to deferred taxes are given in note 22 to these financial statements.

### Legal proceedings and disputes

The Group reviews outstanding legal cases following developments in the legal proceedings at each balance sheet date, considering the nature of the litigation, claim or assessment; the legal processes and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought; the progress of the case (including progress after the date of the financial statements but before those statements are issued); the opinions or views of legal counsel and other advisers; experience of similar cases; and any decision of the Group's management as to how it will respond to the litigation, claim or assessment. Judgement is required as to whether a liability exists. A provision will only be recognised where it is probable that the Group will be required to settle a claim.

### Control of Logista

A key judgement relates to whether the Group has effective control of Logista sufficient that the Group can consolidate this entity within its Group accounts in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group holds 50.01 % of the voting shares. The Group has reviewed its control of Logista and that it is appropriate to consolidate this entity in line with the requirements of IFRS 10 Consolidated Financial Statements. The Group continues to have Director presence on the Board of Logista, representing 4 out of 10 Directors. The Group has powers to control as set out in the Relationship Framework Agreement which specifies certain areas of operation reserved for shareholder approval and through these measures the Group is able to exercise control of Logista. The Group has therefore concluded that it continues to be appropriate to recognise Logista as a fully consolidated subsidiary.

### Climate change

The Group have a designated a programme to manage and mitigate climate related risks. The effect of climate change is not considered to have a material effect on the estimates in the financial statements. Governmental and societal responses to climate change risks are still developing and consequently financial statements cannot capture all possible future outcomes as these are not yet known or do not have sufficient certainty to be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards. Please refer to the following sections for further discussion on the impact of climate change relating to going concern assumptions in note 1, intangible assets impairment assumptions in note 11 and recoverability of deferred tax assets in note 22.

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

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

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

Americas – United States.

AAA – Australia, Japan, Saudi Arabia, Taiwan and our African markets including Algeria and Morocco.

### Tobacco & NGP

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| £ million unless otherwise indicated | **Tobacco** | **NGP** | **Tobacco & NGP** | Tobacco | NGP | Tobacco & NGP |
| Revenue | **23,232** | **224** | **23,456** | 23,664 | 199 | 23,863 |
| Net revenue | **7,545** | **208** | **7,793** | 7,422 | 188 | 7,610 |
| Operating profit | | | **2,472** | | | 2,991 |
| Adjusted operating profit | | | **3,441** | | | 3,308 |
| Adjusted operating margin % | | | **44.2** | | | 43.5 |

### Distribution

| £ million unless otherwise indicated | **2022** | 2021 |
|---|---|---|
| Revenue | **9,756** | 9,589 |
| Distribution net revenue | **1,046** | 1,069 |
| Operating profit | **212** | 148 |
| Adjusted operating profit | **254** | 258 |
| Adjusted operating margin % | **24.3** | 24.1 |

### Revenue

| | 2022 | | 2021 | |
|---|---|---|---|---|
| £ million | **Total revenue** | **External revenue** | Total revenue | External revenue |
| Tobacco & NGP | | | | |
| Europe | **14,194** | **13,533** | 14,720 | 14,059 |
| Americas | **3,756** | **3,756** | 3,393 | 3,393 |
| Africa, Asia & Australasia | **5,506** | **5,506** | 5,750 | 5,750 |
| Total Tobacco & NGP | **23,456** | **22,795** | 23,863 | 23,202 |
| Distribution | **9,756** | **9,756** | 9,589 | 9,589 |
| Eliminations | **(661)** | **–** | (661) | – |
| Total Group | **32,551** | **32,551** | 32,791 | 32,791 |

The eliminations all relate to Tobacco & NGP sales to Distribution.

## Tobacco & NGP net revenue

| £ million | 2022 Tobacco | 2022 NGP | 2022 Total | 2021 Tobacco | 2021 NGP | 2021 Total |
|---|---|---|---|---|---|---|
| Europe | **3,306** | **166** | **3,472** | 3,425 | 126 | 3,551 |
| Americas | **2,784** | **42** | **2,826** | 2,478 | 56 | 2,534 |
| Africa, Asia & Australasia | **1,495** | **–** | **1,495** | 1,519 | 6 | 1,525 |
| Total Tobacco & NGP | **7,585** | **208** | **7,793** | 7,422 | 188 | 7,610 |

## Adjusted operating profit and reconciliation to profit before tax

| £ million | 2022 | 2021 |
|---|---|---|
| Tobacco & NGP | | |
| Europe | **1,562** | 1,670 |
| Americas | **1,179** | 1,037 |
| Africa, Asia & Australasia | **700** | 601 |
| Total Tobacco & NGP | **3,441** | 3,308 |
| Distribution | **254** | 258 |
| Eliminations | **(1)** | 7 |
| Adjusted operating profit | **3,694** | 3,573 |
| Russian and associated markets exit – Tobacco & NGP | **(399)** | – |
| Acquisition and disposal costs – Tobacco & NGP | **(5)** | – |
| Acquisition and disposal costs – Distribution | **–** | (17) |
| (Loss)/profit on disposal of subsidiaries – Tobacco & NGP | **(13)** | 281 |
| Loss on disposal of subsidiaries – Distribution | **(16)** | – |
| Amortisation and impairment of acquired intangibles – Tobacco & NGP | **(323)** | (365) |
| Amortisation of acquired intangibles – Distribution | **(26)** | (85) |
| Excise tax provision – Tobacco & NGP | **9** | 1 |
| Fair value adjustment to financial assets – Tobacco & NGP | **(37)** | 15 |
| Buy-out of liabilities on Irish pension scheme – Tobacco & NGP | **(4)** | – |
| Restructuring costs – Tobacco & NGP | **(197)** | (249) |
| Restructuring costs – Distribution | **–** | (8) |
| Operating profit | **2,683** | 3,146 |
| Net finance (costs)/income | **(117)** | 81 |
| Share of (loss)/profit of investments accounted for using the equity method | **(15)** | 11 |
| Profit before tax | **2,551** | 3,238 |

## Other information

| £ million | 2022 Additions to property, plant and equipment | 2022 Depreciation and software amortisation | 2021 Additions to property, plant and equipment | 2021 Depreciation and software amortisation |
|---|---|---|---|---|
| Tobacco & NGP | | | | |
| Europe | **63** | **103** | 87 | 99 |
| Americas | **31** | **25** | 26 | 28 |
| Africa, Asia & Australasia | **22** | **25** | 20 | 27 |
| Total Tobacco & NGP | **116** | **153** | 133 | 154 |
| Distribution | **29** | **32** | 32 | 40 |
| Total Group | **145** | **185** | 165 | 194 |

## Additional geographic analysis

External revenue and non-current assets are presented for individually significant countries. The geographical analysis is based on country of origin. The Group's products are sold in over 120 countries.

| £ million | 2022 External revenue | 2022 Non-current assets | 2021 External revenue | 2021 Non-current assets |
|---|---|---|---|---|
| UK | **4,286** | **112** | 4,558 | 102 |
| Germany | **4,238** | **3,269** | 4,566 | 3,246 |
| France | **3,215** | **2,365** | 3,537 | 2,336 |
| USA | **3,726** | **6,410** | 3,405 | 5,486 |
| Other | **17,086** | **7,336** | 16,725 | 7,307 |
| Total Group | **32,551** | **19,492** | 32,791 | 18,477 |

Non-current assets comprise intangible assets, property, plant and equipment and investments accounted for using the equity method.

## 4. PROFIT BEFORE TAX

Profit before tax is stated after charging/(crediting):

| £ million | 2022 | 2021 |
|---|---|---|
| Raw materials and consumables used | **857** | 947 |
| Changes in inventories of finished goods – Tobacco & NGP | **2,660** | 2,700 |
| Changes in inventories of finished goods – Distribution | **7,350** | 7,009 |
| Depreciation and impairment of fixed assets | **235** | 170 |
| Amortisation and impairment of intangible assets and impairment to investments in associates | **406** | 575 |
| Acquisition and disposal costs | **5** | 17 |
| Expenses relating to short-term leases | **3** | 4 |
| Expenses relating to low value asset leases | **2** | 2 |
| Depreciation and impairment of right of use assets | **74** | 66 |
| Net foreign exchange losses/(gains) | **75** | (442) |
| Write down of inventories | **20** | 117 |
| Loss on disposal of non-current assets | **–** | 2 |
| Write back of trade receivables | **(3)** | (10) |

### Analysis of fees payables to Ernst and Young LLP and its associates

| £ million | 2022 | 2021 |
|---|---|---|
| Parent Company and consolidated financial statements | **2.2** | 2.0 |
| The Company's subsidiaries | **5.6** | 5.1 |
| **Total audit fees** | **7.8** | 7.1 |
| Audit related assurance services | **0.4** | 0.4 |
| **Total audit related fees** | **8.2** | 7.5 |
| Other assurance services | **0.6** | 0.4 |
| **Total non-audit fees** | **0.6** | 0.4 |
| **Total auditor's remuneration** | **8.8** | 7.9 |

## 5. RESTRUCTURING COSTS

| £ million | 2022 | 2021 |
|---|---|---|
| Employment related | **103** | 145 |
| Asset impairments | **70** | 92 |
| Other charges | **24** | 20 |
| | **197** | 257 |

Analysed by workstream:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| £ million | Costs | Cash spend | Cumulative cash spend | Costs | Cash spend | Cumulative cash spend |
| 2021 Strategic review programme | **197** | **56** | **104** | 226 | 48 | 48 |
| Cost optimisation II | **–** | **19** | **567** | 16 | 41 | 548 |
| Cost optimisation I | **–** | **11** | **582** | 7 | 12 | 571 |
| Other | **–** | **5** | **90** | 8 | 11 | 85 |
| | **197** | **91** | **1,343** | 257 | 112 | 1,252 |

The charge for the year is £197 million (2021: £257 million). In the year to 30 September 2022 this all relates to the 2021 Strategic review programme.

Restructuring projects involve significant one-off costs that are incurred in integrating acquired businesses and in major rationalisation and optimisation initiatives together with their related tax effects.

As these projects are not part of business as usual any costs incurred are classified as restructuring costs and are included within administrative and other expenses in the consolidated income statement and treated as adjusting items.

### 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.

The total restructuring costs in respect of the programme were expected to be in the range of £375 million – £425 million. The programme is now complete, and total restructuring costs in respect of the programme are £423 million, there are no further costs expected beyond September 2022.

Restructuring costs of £197 million (2021: £226 million) related to the 2021 Strategic review programme have been incurred in the year, representing £121 million costs in respect of the change programme itself and £76 million of impairments and other non-cash costs associated with machine and property assets.

### Cost optimisation programmes

The cost optimisation programmes (Phase I announced in 2013 and Phase II announced in November 2016) were part of the Group strategy to optimise costs and drive operational efficiencies. The programmes were time bound projects which, given their scale, were delivered over a number of years.

Phase I was concluded at the end of 2018 and has delivered savings of c. £305 million per annum from September 2018.

Phase II was concluded at the end of 2021 and has delivered savings of c. £320 million per annum from September 2021.

Whilst both programmes are concluded there remain some ongoing cash costs.

## 6. DIRECTORS AND EMPLOYEES

### Employment costs

| £ million | 2022 | 2021 |
|---|---|---|
| Wages and salaries | **642** | 775 |
| Social security costs | **142** | 177 |
| Other pension costs (note 23) | **64** | 75 |
| Share-based payments (note 26) | **29** | 25 |
| | **877** | 1,052 |

### Operating executive (excluding executive directors)

| £ million | 2022 | 2021 |
|---|---|---|
| Base salary | **4.3** | 3.0 |
| Benefits | **0.7** | 0.7 |
| Pension salary supplement | **0.7** | 0.3 |
| Bonus | **5.3** | 2.9 |
| Termination payments | **5.8** | – |
| LTIP annual vesting[1] | **1.5** | 0.8 |
| | **18.3** | 7.7 |

1. Share plans vesting represent the value of LTIP awards (inclusive of recruitment awards) where the performance periods ends in the year.

Note: aggregate remuneration paid to or receivable by Executive directors, Non-Executive Directors and members of the Operating Executive for qualifying services in accordance with IAS 24, which includes National Insurance and similar charges was £31,671,710 (2021: £16,439,675).

### Key management compensation[1]

| £ million | 2022 | 2021 |
|---|---|---|
| Short term employee benefits | **17.6** | 12.7 |
| Post-employment benefits | **0.1** | 0.5 |
| Termination payments | **5.7** | – |
| Share based payments (in accordance with IAS 24) | **3.6** | 0.9 |
| | **27.0** | 14.1 |

1. Key management includes Directors, members of the Executive Committee and the Company Secretary

Details of Directors' emoluments and interests, and of key management compensation which represent related party transactions requiring disclosure under IAS 24, are provided within the Directors' Remuneration Report. The Directors' Remuneration Report, on pages 130–148 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

### Number of people employed by the group during the year

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **At 30 September** | **Average** | At 30 September | Average |
| Tobacco & NGP | **19,900** | **22,600** | 24,100 | 24,000 |
| Distribution | **5,800** | **6,000** | 6,200 | 6,200 |
| | **25,700** | **28,600** | 30,300 | 30,200 |

### Number of people employed by the group by location during the year

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **At 30 September** | **Average** | At 30 September | Average |
| UK and European Union | **14,000** | **14,200** | 14,600 | 14,700 |
| Americas | **5,700** | **7,800** | 8,300 | 8,000 |
| Rest of the World | **6,000** | **6,600** | 7,400 | 7,500 |
| | **25,700** | **28,600** | 30,300 | 30,200 |

## 7. TAX

The major components of income tax expense for the years ended 30 September 2022 and 2021 are:

| £ million | 2022 | 2021 |
|---|---|---|
| UK current tax: | | |
| Current year charged to the consolidated income statement | **217** | 21 |
| Current year (credited)/charged to consolidated other comprehensive income | **(158)** | 105 |
| Total current year UK current tax | **59** | 126 |
| Adjustments in respect of prior years charged/(credited) to the consolidated income statement | **149** | (38) |
| Total UK current tax | **208** | 88 |
| | | |
| Overseas current tax: | | |
| Current year charged to the consolidated income statement | **670** | 458 |
| Current year charged to consolidated other comprehensive income | **–** | (2) |
| Total current year overseas current tax | **670** | 456 |
| Adjustments in respect of prior years (credited)/charged to the consolidated income statement | **(116)** | 46 |
| Total overseas current tax | **554** | 502 |
| | | |
| Total current tax charged to the consolidated statement of other comprehensive income | **762** | 590 |

| £ million | 2022 | 2021 |
|---|---|---|
| UK current tax: | | |
| Current year | **217** | 21 |
| Adjustments in respect of prior years | **149** | (38) |
| Overseas current tax: | | |
| Current year | **670** | 458 |
| Adjustments in respect of prior years | **(116)** | 46 |
| Total current tax | **920** | 487 |
| | | |
| Deferred tax: | | |
| Relating to origination and reversal of temporary differences | **(34)** | (156) |
| Total tax charged to the consolidated income statement | **886** | 331 |

| £ million | 2022 | 2021 |
|---|---|---|
| Tax related to items recognised in consolidated other comprehensive income during the year: | | |
| Current tax on hedge of net investment and quasi-equity loans | **(148)** | 105 |
| Current tax on actuarial gains and losses | **(10)** | (2) |
| Total current tax | **(158)** | 103 |
| | | |
| Deferred tax on hedge of net investment and quasi-equity loans | **–** | 12 |
| Deferred tax on actuarial gains and losses | **52** | 21 |
| Deferred tax on hyperinflation adjustment | **3** | – |
| Total deferred tax | **55** | 33 |
| | | |
| Total tax (credited)/charged to consolidated other comprehensive income | **(103)** | 136 |

| £ million | 2022 | 2021 |
|---|---|---|
| Tax related to items recognised in equity during the year: | | |
| Deferred tax on share based payments | **(2)** | – |
| Total tax charged to equity | **(2)** | – |

### Factors affecting the tax charge for the year

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the average UK corporation tax rate of 19.0% (2021: 19.0%) as follows:

| £ million | 2022 | 2021 |
|---|---|---|
| Profit before tax | **2,551** | 3,238 |
| Tax at the UK corporation tax rate of 19.0% (2021: 19.0%) | **484** | 615 |
| Tax effects of: | | |
| Differences in effective tax rates on overseas earnings | **118** | 107 |
| Movement in provision for uncertain tax positions | **(78)** | 49 |
| Remeasurement of deferred tax balances arising from changes in tax rates | **4** | 15 |
| Recognition of deferred tax assets for tax credits | **–** | (239) |
| Remeasurement of previously recognised deferred tax assets | **(1)** | (5) |
| Increase in unrecognised deferred tax assets | **14** | 12 |
| Deferred tax on unremitted earnings | **(26)** | (4) |
| Share of (loss)/profit of investments accounted for using the equity method | **3** | (2) |
| Non-deductible expenses | **18** | 35 |
| Non-deductible losses/(non-taxable gains) on net foreign exchange on financial instruments | **145** | (169) |
| Non-taxable gain on Premium Cigar Division disposal | **–** | (81) |
| Exempt losses on Russian and associated markets exit | **88** | – |
| Provision for state aid recoverable | **101** | – |
| Adjustments in respect of prior years | **16** | (2) |
| Total tax charged to the consolidated income statement | **886** | 331 |

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

Recognition of deferred tax assets for credits includes £nil (2021: £239 million) in the Group's Spanish business arising from an internal reorganisation during the prior year.

Remeasurement of previously recognised deferred tax assets includes £nil (2021: £8 million) recognition in relation to deferred tax assets for tax losses in the Group's Dutch business. The Group's assessment of the recoverability of deferred tax assets is based on a review of underlying performance of subsidiaries, changes in tax legislation, the interpretation thereof and changes in the Group structure.

The remeasurement of deferred tax balances arising from changes in tax rates for the year is £4 million (2021: £15 million).

During the year the Group has decreased the provision for deferred tax on unremitted earnings by £26 million (2021: £4 million). The tax will arise on the distribution of profits through the Group and on planned group simplification.

### Movement on the current tax account

| £ million | 2022 | 2021 |
|---|---|---|
| At 1 October | **82** | (144) |
| Charged to the consolidated income statement | **(920)** | (487) |
| Credited/(charged) to other comprehensive income | **158** | (103) |
| Cash paid | **681** | 820 |
| Exchange movements | **(7)** | 3 |
| Balance sheet reclassification | **33** | (7) |
| At 30 September | **27** | 82 |

The cash tax paid in the year is £239 million lower than the current tax charge (2021: £333 million higher). This arises as a result of timing differences between the accrual of income taxes and the actual payment of cash and the movement in the provision for uncertain tax positions.

### Analysis of current tax account

| £ million | 2022 | 2021 |
|---|---|---|
| State aid tax recoverable | **–** | 101 |
| Current tax assets | **334** | 234 |
| Current tax liabilities | **(307)** | (253) |
| | **27** | 82 |

### Uncertain tax positions

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

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2022 the total value of these provisions, including foreign exchange movements, was £148 million (2021: £306 million). The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice. Until matters are finally concluded it is possible that amounts ultimately paid will be different from the amounts provided.

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

#### French tax litigation

In November 2015 the Group received a challenge from the French tax authorities that could lead to additional tax liabilities of up to £240 million. The challenge concerns the valuation placed on the shares of Altadis Distribution France (now known as Logista France) following an intragroup 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 £240 million (2021: £234 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. All submissions have been made to the court and we await a hearing date. The Group believes it is appropriate to maintain a £42 million (2021: £41 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.

Based on the Commission's decision and despite the appeals, the UK government was obliged to recover State Aid received. Whilst the Group's position remains no State Aid has been received, in February 2021 a recovery charging notice for £101 million was issued to the Group by HMRC, and has since been paid.

In June 2022 the European General Court rejected the appeals. Whilst this decision has been appealed to the Court of Justice of the European Union (CJEU) and the appeal may possibly be successful, in the light of the European General Court's decision we have reassessed recoverability of the £101 million previously recorded as a receivable and have now determined it is appropriate to provide in full.

#### 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 £200 million (2021: £900 million). The Group holds a provision of £54 million (2021: £260 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 c. £6 million. Collaborative discussions on the issue continue and it is the Group's belief the issue is a transfer pricing one, and will be resolved as such. In November 2020, HMRC issued a final DPT notice, which has since been paid and recognised as a receivable. In September 2021, further preliminary DPT notices were received in respect of the year ended 30 September 2017 indicating a potential liability of c. £4 million, which has since been paid and recognised as a receivable. Based on advice, the Group continues to believe this is a transfer pricing matter. In September 2022 this matter was concluded as a transfer pricing matter, in respect of which a settlement was made. These DPT payments are now expected to be refunded.

In December 2021 the Group concluded a transfer pricing audit with the French tax authorities. In September 2022 the Group concluded transfer pricing audits with the UK and German tax authorities. Settlements of the French and UK audits were made during the Group's year ended 30 September 2022.

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

#### French branch tax

In December 2021 the Group received assessments from the French tax authorities which could lead to additional liabilities of £169 million. The challenge concerns the intragroup financing of the French branch of Imperial Tobacco Limited. In February 2022 the Group appealed against the assessment. In September 2022 the French tax authorities opened a further tax audit into this matter. Following discussions with the French tax authorities a settlement proposal covering all years has been made for £48 million including interest, for which a provision has been made.

## 8. DIVIDENDS

### Distributions to ordinary equity holders

| £ million | 2022 | 2021 | 2020 |
|---|---|---|---|
| Paid interim of 42.54 pence per share (2021: 42.12 pence, 2020: 41.70 pence) | | | |
| – Paid June 2020 | – | – | 197 |
| – Paid September 2020 | – | – | 197 |
| – Paid December 2020 | – | – | 453 |
| – Paid June 2021 | – | 199 | – |
| – Paid September 2021 | – | 199 | – |
| – Paid December 2021 | – | 458 | – |
| – Paid June 2022 | 202 | – | – |
| – Paid September 2022 | 202 | – | – |
| Interim dividend paid | 404 | 856 | 847 |
| Proposed interim of 49.31 pence per share (2021: 48.48 pence, 2020: 48.00 pence) | | | |
| – To be paid December 2022 | 467 | – | – |
| Interim dividend proposed | 467 | – | – |
| Proposed final of 49.32 pence per share (2021: 48.48 pence, 2020: 48.01 pence) | | | |
| – Paid March 2021 | – | – | 454 |
| – Paid March 2022 | – | 458 | – |
| – To be paid March 2023 | 467 | – | – |
| Final dividend | 467 | 458 | 454 |
| Total ordinary share dividends of 141.17 pence per share (2021: 139.08 pence, 2020: 137.71 pence) | 1,338 | 1,314 | 1,301 |

The third interim dividend for the year ended 30 September 2022 of 49.31 pence per share amounts to a proposed dividend of £467 million, which will be paid in December 2022.

The proposed final dividend for the year ended 30 September 2022 of 49.32 pence per share amounts to a proposed dividend payment of £467 million in March 2023 based on the number of shares ranking for dividend at 30 September 2022, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2022 will be £1,338 million (2021: £1,314 million). The dividend paid during 2022 is £1,320 million (2021: £1,305 million).

## 9. EARNINGS PER ORDINARY SHARE

Basic earnings per share is based on the profit for the period attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the period excluding shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares. Diluted earnings per share have been calculated by taking into account the weighted average number of shares that would be issued if rights held under the employee share schemes were exercised. No instruments have been excluded from the calculation for any period on the grounds that they are anti-dilutive.

| £ million | 2022 | 2021 |
|---|---|---|
| Earnings: basic and diluted – attributable to owners of the Parent Company | 1,570 | 2,834 |

| Millions of shares | 2022 | 2021 |
|---|---|---|
| Weighted average number of shares: | | |
| Shares for basic earnings per share | 946.2 | 945.0 |
| Potentially dilutive share options | 6.8 | 2.5 |
| Shares for diluted earnings per share | 953.0 | 947.5 |

| Pence | 2022 | 2021 |
|---|---|---|
| Basic earnings per share | 165.9 | 299.9 |
| Diluted earnings per share | 164.7 | 299.1 |

## 10. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

### Russian and associated markets exit

The total loss on exit from the Russian and associated markets was £423 million, comprising a loss on transfer of Russian operations of £364 million, impairment of assets and exit costs of the associated markets of £35 million and the impairment of an intangible asset held by the Global Horizon Ventures Limited joint venture of £24 million.

#### Loss on transfer of Russian operations

On 27 April 2022, following registration with the Russian tax authority, the Group completed the transfer of its Russian assets to a third party for a total consideration of £20 million. Disposal costs of c. £4 million were incurred. An impairment charge against the Russian assets of £166 million was recognised as at 31 March 2022 when the assets were classified as an asset held for sale. A further net loss of £198 million arose on completion including recycled foreign exchange losses of £190 million. The total loss on disposal was £364 million. The impairment and disposal losses have been treated as adjusting items and are excluded from adjusted earnings.

#### Exit of the associated markets

The decision to transfer the assets of the Russian operations has implications for a limited number of Group markets that have historically been supplied by the Volgograd factory. Following a review of the impacts resulting from the decision to transfer the Russian factory it was determined that it was unviable to continue trading in these areas for a number of reasons including duty and supply chain challenges. The decision to exit operations results in a number of assets held by these markets having been impaired. In addition certain exit costs are expected to have to be incurred in the process of ending operations. Total impairment and exit costs of £35 million are now required to be recognised. Provisions for the costs of exit have been recognised as at the 30 September 2022 balance sheet date.

#### Impairment of Global Horizons Ventures Limited

The Group has an investment in the Global Horizon Ventures Limited joint venture company which is accounted for as an investment using the equity method. This entity held an intangible asset relating to royalties arising on the sales of a specific brand within Russia. Following the transfer of the Russian assets these royalties will cease and therefore the Group's share of this asset has now been fully impaired with a charge of £24 million.

### Premium Cigar Division

On 27 April 2020 the Group announced that it had agreed the sale of the Premium Cigar Division ("the Division"). The share sale element of the sale of the Division completed on 29 October 2020. Further deferred consideration of €88 million (£74 million) relating to the share sale was received on 26 October 2021.

The sale of the La Romana factory in the Dominican Republic completed on 2nd August 2022. Sales consideration of €54 million (£46 million) was received on completion. A loss of £13 million was recognised on disposal.

### Logista

#### Disposals

On 2 February 2022 the Group's subsidiary Logista sold its interest in Supergroup S.A.S. for a consideration of £nil. As at 30 September 2021 Supergroup S.A.S was held as an asset held for sale. A loss on disposal of £16 million before tax and £9 million after tax has been recognised. In addition Logista sold two properties in the year that had previously been recognised as assets held for sale for consideration of €15 million (£13 million).

#### Speedlink

On 16 February 2022, the Group's subsidiary Logista acquired 70% of the share capital of Speedlink Worldwide Express B.V. for a purchase consideration of €17 million (£14 million) comprised of €15 million (£13 million) which has been paid in cash and €2 million (£2 million) of contingent consideration which is payable upon achievement of certain business objectives, the maximum contingent consideration payable is €3 million (£3 million). There is an intention to purchase the remaining 30% of share capital over the next 3 years. As effective control has been achieved through this acquisition, Speedlink Worldwide Express B.V. has been consolidated as a subsidiary within the Group with a 65% minority interest. Goodwill of €11 million (£10 million), intangible assets of €15 million (£13 million) and deferred tax liability of €4 million (£3 million) were recognised on acquisition.

#### Carbó Collbatallé, S.L.

In April 2022, the Group's subsidiary Logista reached an agreement to acquire 100% of Carbó Collbatellé, S.L. for an expected maximum purchase consideration of €51 million (£44 million) based on achievement of certain business conditions being met. The acquisition was completed in October 2022, after these conditions had been met and payment of the full €51 million (£44 million) was made.

#### Transportes El Mosca

On 17 June 2022, the Group's subsidiary Logista announced the acquisition of 60% of Transportes El Mosca for an expected maximum purchase consideration of €106 million (£91 million). The acquisition of the remaining 40% is expected over the next three years. The acquisition is was completed in October 2022, when Logista paid €83 million in addition to an advance payment of €15 million contingent consideration which will be payable or repayable in part or in full based on achievement of certain business conditions being met.

### Assets and Liabilities Held For Disposal

There are no assets or liabilities classified as held for disposal in 2022 (2021: £35 million assets, £35 million liabilities).

## 11. INTANGIBLE ASSETS

| £ million | Goodwill | Intellectual property and product development | Supply agreements | Software | Total |
|---|---|---|---|---|---|
| | | | | | 2022 |
| Cost | | | | | |
| At 1 October 2021 | 13,417 | 12,359 | 1,387 | 451 | 27,614 |
| Additions | – | 20 | 1 | 65 | 86 |
| Acquisitions | 10 | – | 13 | – | 23 |
| Disposals | – | – | – | (8) | (8) |
| Reclassifications | 4 | – | – | – | 4 |
| Exchange movements | 797 | 1,492 | 32 | 14 | 2,335 |
| At 30 September 2022 | 14,228 | 13,871 | 1,433 | 522 | 30,054 |
| | | | | | |
| Amortisation and impairment | | | | | |
| At 1 October 2021 | 1,542 | 7,735 | 1,355 | 308 | 10,940 |
| Amortisation charge for the year | – | 331 | 27 | 35 | 393 |
| Impairment | – | – | – | 1 | 1 |
| Disposals | – | – | – | (5) | (5) |
| Reclassifications | 4 | – | – | – | 4 |
| Exchange movements | 41 | 859 | 32 | 12 | 944 |
| Accumulated amortisation | – | 8,386 | 1,414 | 350 | 10,150 |
| Accumulated impairment | 1,587 | 539 | – | 1 | 2,127 |
| At 30 September 2022 | 1,587 | 8,925 | 1,414 | 351 | 12,277 |
| | | | | | |
| Net book value | | | | | |
| At 30 September 2022 | 12,641 | 4,946 | 19 | 171 | 17,777 |

| £ million | Goodwill | Intellectual property and product development | Supply agreements | Software | Total |
|---|---|---|---|---|---|
| | | | | | 2021 |
| Cost | | | | | |
| At 1 October 2020 | 14,435 | 12,994 | 1,463 | 465 | 29,357 |
| Additions | – | 9 | – | 28 | 37 |
| Disposals | (260) | 5 | (2) | (22) | (279) |
| Exchange movements | (758) | (649) | (74) | (20) | (1,501) |
| At 30 September 2021 | 13,417 | 12,359 | 1,387 | 451 | 27,614 |
| | | | | | |
| Amortisation and impairment | | | | | |
| At 1 October 2020 | 1,895 | 7,663 | 1,341 | 298 | 11,197 |
| Amortisation charge for the year | – | 333 | 85 | 37 | 455 |
| Impairment | – | 118 | – | 2 | 120 |
| Disposals | (260) | – | (1) | (15) | (276) |
| Exchange movements | (93) | (379) | (70) | (14) | (556) |
| Accumulated amortisation | – | 7,196 | 1,355 | 304 | 8,855 |
| Accumulated impairment | 1,542 | 539 | – | 4 | 2,085 |
| At 30 September 2021 | 1,542 | 7,735 | 1,355 | 308 | 10,940 |
| | | | | | |
| Net book value | | | | | |
| At 30 September 2021 | 11,875 | 4,624 | 32 | 143 | 16,674 |

Amortisation and impairment of acquired intangibles excluded from adjusted operating profit amounted to £349 million (2021: £450 million), this comprises amortisation on intellectual property of £323 million (2021: £320 million) and amortisation on supply agreements of £26 million (2021: £85 million).

Intellectual property mainly comprises brands acquired in the USA in 2015 and through the purchases of Altadis in 2008 and Commonwealth Brands in 2007.

Supply agreements include Distribution customer relationships. All were acquired as part of the Altadis purchase.

Intangible amortisation and impairment are included within administrative and other expenses in the consolidated income statement.

Amortisation and impairment in respect of intangible assets other than software and internally generated intellectual property are treated as reconciling items between reported operating profit and adjusted operating profit, except to the extent these have been treated as restructuring costs.

### Goodwill and intangible asset impairment review

Goodwill is allocated to groups of cash-generating units (CGUs) that are expected to benefit from the business combination in which the goodwill arose. For the Tobacco & NGP business CGUs are based on the markets where the business operates and are grouped in line with the divisional structure in operation during the year. The groupings represent the lowest level at which goodwill is monitored for internal management purposes. A summary of the carrying value of goodwill and intangible assets with indefinite lives is set out below.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| £ million | **Goodwill** | **Intangible assets with indefinite lives** | Goodwill | Intangible assets with indefinite lives |
| Europe | **4,710** | **343** | 4,402 | 334 |
| Americas | **4,326** | **–** | 4,042 | – |
| Africa, Asia & Australasia | **1,862** | **–** | 1,740 | 132 |
| Tobacco & NGP | **10,898** | **343** | 10,184 | 466 |
| Distribution | **1,743** | **–** | 1,691 | – |
| | **12,641** | **343** | 11,875 | 466 |

Goodwill has arisen principally on the acquisitions of Reemtsma in 2002 (all CGU groupings), Commonwealth Brands in 2007 (USA), Altadis in 2008 (all CGU groupings) and ITG Brands in 2015 (USA). Intangible assets with indefinite lives relate to the tobacco trademark, Davidoff, which was purchased as part of the acquisition of Reemtsma in 2002.

The Group tests goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if there are any indications that impairment may have arisen. The value of a Cash Generating Unit Grouping (CGUG) is based on value-in-use calculations. These calculations use cash flow projections derived from financial plans of our Tobacco business which are based on detailed bottom-up market-by-market forecasts of projected sales volumes for each product line. These forecasts reflect, on an individual market basis, numerous assumptions and estimates regarding anticipated changes in market size, prices and duty regimes, consumer up-trading and down-trading, consumer preferences and other changes in product mix, based on long-term market trends, market data, anticipated regulatory developments, and management experience and expectations. We consider that pricing, market size, market shares and cost inflation are the key assumptions used in our plans.

#### Growth rates and discount rates used

The compound annual growth rates implicit in these value-in-use calculations are shown below.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| % | **Pre-tax discount rate** | **Initial growth rate** | **Long-term growth rate** | Pre-tax discount rate | Initial growth rate | Long-term growth rate |
| Europe | **10.3** | **4.6** | **0.6** | 9.9 | 2.7 | 0.1 |
| Americas | **8.7** | **5.2** | **1.6** | 9.8 | 5.7 | 1.6 |
| Africa, Asia & Australasia | **11.1** | **2.8** | **1.3** | 12.1 | 1.7 | 0.3 |
| Distribution | **11.8** | **3.9** | **1.5** | 11.2 | 1.5 | 1.4 |

The calculation to determine the value in use involves a discounted future cash flow forecast model. Nominal cash flows are used in the calculation which will themselves already factor in the effects of inflation. The cash flows are sourced from the Group business plan which considers and factors in the risk of variability of future business performance and hence cash flow variation. A nominal discount rate is used within the model based on the Group's weighted average cost of capital which is itself calculated using the Capital Asset Pricing Model. As risk has been applied within the undiscounted cash flows no adjustment is made to the discount rate for risk, except for the application of country risk premia over and above the Group weighted average cost of capital where appropriate.

Country specific discount rates are used based on the Group's weighted average cost of capital adjusted for country risk premium. The impairment review is undertaken at a CGUG level which involves the aggregation of the individual value in use amounts for the individual countries which constitute each CGCG. Our impairment projections are prepared under the basis set out in IAS 36 which can differ from our internal plans.

Nominal cash flows from the business plan period are used for year one, two and three, then extrapolated out to year five using the implicit growth rate, shown in the table above as the initial growth rate. In certain markets, the extrapolated cash flow growth rate can exceed the long term growth rate based on the business plan being a better reflection of the anticipated initial growth. Estimated long term weighted average compound growth rates are used beyond year five.

Long term growth rates are determined as the lower of:

- the nominal GDP growth rates for the country of operation; and
- the extrapolation of the initial growth rates as estimated by management for years one to five.

Long-term growth rates are based on management's long-term expectations, taking account of industry specific factors such as the nature of our products, the role of excise in government fiscal policy, and relatively stable and predictable long-term macro trends in the Tobacco industry. Year on year variations in initial growth rates may result in consequential changes to estimated long term rates.

Europe's initial growth rate has improved compared with the prior year, with a minor improvement in the long term growth rate. This primarily reflects improvements in the Spanish market, travel retail and global duty free businesses.

Americas was broadly in line with the prior year growth assumptions for the initial and medium growth rate.

Africa, Asia & Australasia (AAA) increases in the initial growth rates are driven by improved medium term forecasts, which are due to changes in the growth outlook for a number of key markets. Improvements in forecast profitability reflect actions delivered in line with our strategic goals. The long term growth rate improvement reflects changes in certain assumptions associated with the extrapolation of the initial growth rate for a number of individual markets.

### Goodwill and Intangible asset impairment review conclusion

Our impairment testing confirms there are sufficient cash flows to support the current carrying values of the goodwill held at 30 September 2022. Any reasonable movement in the assumptions used in the impairment tests would not result in an impairment. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets can affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions significantly change it is possible that materially different amounts could be reported in the Group's financial statements in future periods. There are uncertainties associated with estimating the valuation of the recoverable amount.

At the present time the recoverable amount is significantly in excess of the carrying value of goodwill and other intangible assets. However, given the uncertainties mentioned above this could change in the future.

### Consideration of the impact of climate change

The Group has completed an assessment of the impact of climate change which includes how it will vary future costs and therefore cash flows. The detail of the Tobacco & NGP climate change review can be found in the ESG review section. The review has concluded that there are limited impacts on future cash flows as a result of climate change. Within the impact assessment there is recognition that gross incremental costs of up to £3,466 million may be incurred in the period up to 2050. We have factored these additional costs to the Group into our discounted cash flow forecasts used for impairment testing valuation purposes. This concluded that there continues to be sufficient headroom. There is therefore no impairment recognised as result of incremental climate change costs. However, the Group will continue to review the climate change impact going forward and any future changes in impact assessment could potentially result in changes to the impairment assessment.

### Other intangible assets

Other intangible assets are considered for impairment risk. The carrying values of brand intangibles are reviewed against expected future cash flows of associated products. Impairment will only be recognised where there is evidence that the carrying value of the brand cannot be recovered through those cash flows. No impairments have been recognised for brand intangibles.

Intellectual property and product development intangible assets have also been reviewed to identify potential impairment triggers. No such impairment triggers were noted in the year ended 30 September 2022 and hence no impairment charge has been incurred (2021: £118 million).

£1 million (2021: £2 million) impairment charge was incurred in the year relating to software.

## 12. PROPERTY, PLANT AND EQUIPMENT

| £ million | Property | Plant and equipment | Fixtures and motor vehicles | Total |
|---|---|---|---|---|
| | | | | 2022 |
| Cost | | | | |
| At 30 September 2021 | 797 | 2,086 | 411 | 3,294 |
| Hyperinflation restatement to 1 October 2021 | 1 | 24 | 2 | 27 |
| At 1 October 2021 | 798 | 2,110 | 413 | 3,321 |
| Additions | 13 | 74 | 58 | 145 |
| Disposals | (51) | (170) | (24) | (245) |
| Hyperinflation adjustment | 1 | 7 | – | 8 |
| Reclassifications | 19 | (4) | (5) | 10 |
| Exchange movements | 26 | 63 | 13 | 102 |
| At 30 September 2022 | 806 | 2,080 | 455 | 3,341 |
| | | | | |
| Depreciation and impairment | | | | |
| At 30 September 2021 | 162 | 1,146 | 271 | 1,579 |
| Hyperinflation restatement to 1 October 2021 | – | – | – | – |
| At 1 October 2021 | 162 | 1,146 | 271 | 1,579 |
| Depreciation charge for the year | 14 | 102 | 34 | 150 |
| Impairment | 10 | 69 | 6 | 85 |
| Disposals | (13) | (146) | (21) | (180) |
| Reclassifications | – | (4) | 1 | (3) |
| Exchange movements | 8 | 33 | 10 | 51 |
| At 30 September 2022 | 181 | 1,200 | 301 | 1,682 |
| | | | | |
| Net book value | | | | |
| At 30 September 2022 | 625 | 880 | 154 | 1,659 |

| £ million | Property | Plant and equipment | Fixtures and motor vehicles | Total |
|---|---|---|---|---|
| | | | | 2021 |
| Cost | | | | |
| At 1 October 2020 | 905 | 2,216 | 438 | 3,559 |
| Additions | 13 | 99 | 53 | 165 |
| Disposals | (78) | (114) | (43) | (235) |
| Reclassifications | 4 | 1 | (4) | 1 |
| Transfer to current assets held for disposal | (8) | – | (12) | (20) |
| Exchange movements | (39) | (116) | (21) | (176) |
| At 30 September 2021 | 797 | 2,086 | 411 | 3,294 |
| | | | | |
| Depreciation and impairment | | | | |
| At 1 October 2020 | 188 | 1,190 | 282 | 1,660 |
| Depreciation charge for the year | 20 | 104 | 33 | |
| Impairment | 2 | 11 | – | 13 |
| Disposals | (40) | (93) | (30) | (163) |
| Reclassifications | 4 | (6) | (2) | (4) |
| Exchange movements | (12) | (60) | (12) | (84) |
| At 30 September 2021 | 162 | 1,146 | 271 | 1,579 |
| | | | | |
| Net book value | | | | |
| At 30 September 2021 | 635 | 940 | 140 | 1,715 |

## 13. RIGHT OF USE ASSETS AND LEASE LIABILITY

The movements in right of use assets in the year were as follows:

| £ million | Property | Plant and equipment | Fixtures and motor vehicles | 2022 Total |
|---|---|---|---|---|
| Net book value | | | | |
| At 1 October 2021 | 202 | 6 | 34 | 242 |
| Additions | 57 | 1 | 11 | 69 |
| Terminations and modifications | (13) | – | (2) | (15) |
| Depreciation and impairment | (56) | (4) | (14) | (74) |
| Exchange movements | 4 | – | 2 | 6 |
| At 30 September 2022 | 194 | 3 | 31 | 228 |

The movements in lease liabilities in the year were as follows:

| £ million | Lease Liabilities |
|---|---|
| At 1 October 2021 | 251 |
| Cash flow | (68) |
| Accretion of interest | 6 |
| New leases, terminations and modifications | 54 |
| Exchange movements | 5 |
| At 30 September 2022 | 248 |

The maturity profile of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2022 is as follows:

| £ million | Lease liabilities | Effect of discounting | 2022 Contractual cash flows |
|---|---|---|---|
| Amounts maturing: | | | |
| Within one year | 58 | 6 | 64 |
| Between one and five years | 108 | 32 | 140 |
| In five years or more | 82 | 3 | 85 |
| | 248 | 41 | 289 |

Future minimum lease payments liabilities are analysed as below:

| £ million | Property | Plant and equipment | Fixtures and motor vehicles | 2022 Total |
|---|---|---|---|---|
| Due in less than one year | 48 | 2 | 14 | 64 |
| Due between one and five years | 121 | 2 | 17 | 140 |
| Due in more than five years | 85 | – | – | 85 |
| Total future minimum lease payments payable | 254 | 4 | 31 | 289 |
| Effect of discounting | | | | (41) |
| Lease liability | | | | 248 |

The following are the amounts recognised in the consolidated income statement:

| £ million | 2022 | 2021 |
|---|---|---|
| Expenses relating to short-term leases | 3 | 4 |
| Expenses relating to low value asset leases | 2 | 2 |
| Depreciation and impairment expense of right of use assets | 74 | 66 |
| Interest on lease liabilities | 6 | 7 |

The movements in right of use assets in the year ending 30 September 2021 were as follows:

| | | | | 2021 |
|---|---|---|---|---|
| £ million | Property | Plant and equipment | Fixtures and motor vehicles | Total |
| Net book value | | | | |
| At 1 October 2020 | 254 | 8 | 31 | 293 |
| Additions | 29 | 2 | 22 | 53 |
| Terminations and modifications | (21) | (2) | (3) | (26) |
| Depreciation | (49) | (2) | (15) | (66) |
| Exchange movements | (11) | – | (1) | (12) |
| At 30 September 2021 | 202 | 6 | 34 | 242 |

The movements in lease liabilities in the year ending 30 September 2021 were as follows:

| £ million | Lease Liabilities |
|---|---|
| At 1 October 2020 | 299 |
| Cash flow | (69) |
| Accretion of interest | 7 |
| New leases, terminations and modifications | 26 |
| Exchange movements | (12) |
| At 30 September 2021 | 251 |

The maturity profile of the carrying amount of the Group's lease liabilities and the contractual cash flows as at 30 September 2021 is as follows:

| | | | 2021 |
|---|---|---|---|
| £ million | Lease liabilities | Effect of discounting | Contractual cash flows |
| Amounts maturing: | | | |
| Within one year | 57 | 7 | 64 |
| Between one and five years | 124 | 17 | 141 |
| In five years or more | 70 | 8 | 78 |
| | 251 | 32 | 283 |

Future minimum lease payments liabilities as at 30 September 2021 are analysed as below:

| | | | | 2021 |
|---|---|---|---|---|
| £ million | Property | Plant and equipment | Fixtures and motor vehicles | Total |
| Due in less than one year | 47 | 2 | 15 | 64 |
| Due between one and five years | 116 | 3 | 22 | 141 |
| Due in more than five years | 78 | – | – | 78 |
| Total future minimum lease payments payable | 241 | 5 | 37 | 283 |
| Effect of discounting | | | | (32) |
| Lease liability | | | | 251 |

## 14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The principal joint venture during the year was Global Horizon Ventures Limited. The entity held an intangible asset relating to royalties arising on the sales of a specific brand within Russia. Following the transfer of the Russian assets these royalties will cease and therefore the Group's share of this asset has now been fully impaired with a charge of £24 million.

Corporación Habanos SA, Cuba and Altabana SL, Spain were part of the Premium Cigar Division, disposed of on 29 October 2020. Summarised financial information for the Group's joint ventures, which are accounted for under the equity method, is shown below:

| | | | 2022 |
|---|---|---|---|
| £ million | Global Horizon Ventures | Others | Total |
| Revenue | 23 | 27 | 50 |
| (Loss)/profit after tax | (7) | 5 | (2) |
| | | | |
| Non-current assets | – | 6 | 6 |
| Current assets | 62 | 44 | 106 |
| Total assets | 62 | 50 | 112 |
| Current liabilities | – | (39) | (39) |
| Non-current liabilities | (7) | (10) | (17) |
| Total liabilities | (7) | (49) | (56) |
| Net assets | 55 | 1 | 56 |

| | | | | | 2021 |
|---|---|---|---|---|---|
| £ million | Corporación Habanos | Altabana | Global Horizon Ventures | Others | Total |
| Revenue | 15 | 30 | 18 | 27 | 90 |
| Profit after tax | 5 | 5 | 13 | 5 | 28 |
| | | | | | |
| Non-current assets | – | – | 24 | 3 | 27 |
| Current assets | – | – | 47 | 49 | 96 |
| Total assets | – | – | 71 | 52 | 123 |
| Current liabilities | – | – | (3) | (43) | (46) |
| Non-current liabilities | – | – | – | (9) | (9) |
| Total liabilities | – | – | (3) | (52) | (55) |
| Net assets | – | – | 68 | – | 68 |

### Transactions and balances with joint ventures

| £ million | 2022 | 2021 |
|---|---|---|
| Sales to | – | 6 |
| Purchases from | 11 | 19 |
| Accounts payable to | (3) | (3) |

### Movement on investments accounted for using the equity method

| £ million | 2022 | 2021 |
|---|---|---|
| At 1 October | 88 | 117 |
| Share of (loss)/profit for the year from joint ventures | (15) | 11 |
| Share of profit for the year from associates | 2 | – |
| Increase in investment in associates | 2 | 3 |
| Impairment of investment in associates | (12) | – |
| Dividends | (9) | (9) |
| Classification to held for disposal and disposals of business | – | (32) |
| Foreign exchange losses | – | (2) |
| At 30 September | 56 | 88 |

## 15. INVENTORIES

| £ million | 2022 | 2021 |
|---|---|---|
| Raw materials | **910** | 839 |
| Work in progress | **73** | 58 |
| Finished inventories | **2,969** | 2,765 |
| Other inventories | **188** | 172 |
| | **4,140** | 3,834 |

Other inventories mainly comprise duty-paid tax stamps.

Within finished inventories of £2,969 million (2021: £2,765 million) there is excise duty of £1,255 million (2021: £1,282 million).

It is generally recognised industry practice to classify leaf tobacco inventory as a current asset, although part of such inventory, because of the duration of the processing cycle ordinarily would not be consumed within one year. We estimate that around £114 million (2021: £115 million) of leaf tobacco held within raw materials will not be utilised within a year of the balance sheet date.

## 16. TRADE AND OTHER RECEIVABLES

| | 2022 | | 2021 | |
|---|---|---|---|---|
| £ million | Current | Non-current | Current | Non-current |
| Trade receivables | **2,262** | **3** | 2,431 | 3 |
| Less: loss allowance | **(76)** | **(3)** | (68) | (3) |
| Net trade receivables | **2,186** | **–** | 2,363 | – |
| Other receivables | **200** | **37** | 227 | 58 |
| Prepayments | **157** | **30** | 159 | 4 |
| | **2,543** | **67** | 2,749 | 62 |

Trade receivables may be analysed as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| £ million | Current | Non-current | Current | Non-current |
| Within credit terms | **2,084** | **–** | 2,271 | – |
| Past due by less than 3 months | **93** | **–** | 85 | – |
| Past due by more than 3 months | **9** | **–** | 7 | – |
| Amounts that are impaired | **76** | **3** | 68 | 3 |
| | **2,262** | **3** | 2,431 | 3 |

The movements in the total loss allowance for receivables can analysed as follows:

| £ million | 2022 | 2021 |
|---|---|---|
| At 1 October | **71** | 116 |
| Net increase/(decrease) in provision | **8** | (45) |
| At 30 September | **79** | 71 |

Trade receivables are reviewed by their risk profiles and loss patterns to assess credit risk. Historical and forward-looking information is considered to determine the appropriate expected credit loss allowance. Provision levels are calculated on the residual credit risk after consideration of any credit protection which is used by the Group. Expected credit losses (ECLs) are applied to net trade receivables which are measured reflecting lifetime ECLs using the simplified approach. Trade receivables are all repayable within 12 months and therefore the ECL provision represents all expected losses within this term.

## 17. CASH AND CASH EQUIVALENTS

| £ million | 2022 | 2021 |
|---|---|---|
| Cash at bank and in hand | **703** | 673 |
| Short-term deposits and other liquid assets | **1,147** | 614 |
| | **1,850** | 1,287 |

£144 million (2021: £152 million) of total cash and cash equivalents is held in countries in which prior approval is required to transfer the funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time which in all cases is 3 months or less from the date the transfer is requested.

## 18. TRADE AND OTHER PAYABLES

| £ million | 2022 Current | 2022 Non-current | 2021 Current | 2021 Non-current |
|---|---|---|---|---|
| Trade payables | **1,345** | **–** | 1,018 | – |
| Duties payable | **5,453** | **–** | 5,507 | – |
| Other taxes and social security contributions | **1,412** | **–** | 1,399 | – |
| Other payables | **500** | **–** | 449 | – |
| Accruals | **796** | **10** | 733 | 7 |
| | **9,506** | **10** | 9,106 | 7 |

## 19. BORROWINGS

The Group's borrowings held at amortised cost, are as follows:

| £ million | 2022 | 2021 |
|---|---|---|
| Current borrowings | | |
| Bank loans and overdrafts | **27** | 51 |
| Capital market issuance: | | |
| £1,000 million 9.0% notes due February 2022 | **–** | 1,056 |
| US$ 354 million 3.5% notes due February 2023 | **322** | – |
| €750 million 1.125% notes due August 2023 | **662** | – |
| Total current borrowings | **1,011** | 1,107 |
| | | |
| Non-current borrowings | | |
| Bank loans | **1** | 1 |
| Capital market issuance: | | |
| US$ 1,000 million 3.5% notes due February 2023 | **–** | 746 |
| €750 million 1.25% notes due August 2023 | **–** | 646 |
| £600 million 8.125% notes due March 2024 | **626** | 626 |
| US$ 1,000 million 3.125% notes due July 2024 | **910** | 745 |
| €500 million 1.375% notes due January 2025 | **445** | 434 |
| US$ 1,500 million 4.25% notes due July 2025 | **1,367** | 1,119 |
| €650 million 3.375% notes due February 2026 | **584** | 570 |
| US$ 750 million 3.5% notes due July 2026 | **682** | 559 |
| £500 million 5.5% notes due September 2026 | **500** | 500 |
| €750 million 2.125% notes due February 2027 | **670** | 653 |
| US$ 1,000 million 6.125% notes due July 2027 | **908** | – |
| US$ 1,000 million 3.875% notes due July 2029 | **909** | 745 |
| £500 million 4.875% notes due June 2032 | **505** | 505 |
| €1,000 million 1.75% notes due March 2033 | **889** | 866 |
| Total non-current borrowings | **8,996** | 8,715 |
| Total borrowings | **10,007** | 9,822 |
| Analysed as: | | |
| Capital market issuance | **9,979** | 9,770 |
| Bank loans and overdrafts | **28** | 52 |

Current and non-current borrowings include interest payable of £2 million (2021: £56 million) and £104 million (2021: £93 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest.

On 17 February 2022, £1,000 million 9.0% notes were repaid. On 27 July 2022, US$ 1,000 million (£829 million equivalent) 6.125% notes were issued. On 27 July 2022, a partial repayment of the US$ 1,000 million 3.5% notes was made; US$ 646 million (£535 million equivalent) was repaid with the remaining US$ 354 million due February 2023.

All borrowings are unsecured and the Group has not defaulted on any borrowings during the year (2021: no defaults).

### Non-current financial liabilities

The maturity profile of the carrying amount of the Group's non-current liabilities as at 30 September 2022 (including lease liabilities detailed in note 13 and net derivative financial instruments detailed in note 21) is as follows:

| £ million | Borrowings | Lease liabilities | Net derivative financial liabilities/ (assets) | Total |
|---|---|---|---|---|
| | | | | **2022** |
| Amounts maturing: | | | | |
| Between one and two years | **1,537** | **44** | **18** | **1,599** |
| Between two and five years | **5,155** | **64** | **148** | **5,367** |
| In five years or more | **2,304** | **82** | **(79)** | **2,307** |
| | **8,996** | **190** | **87** | **9,273** |

| £ million | Borrowings | Lease liabilities | Net derivative financial liabilities/ (assets) | Total |
|---|---|---|---|---|
| | | | | 2021 |
| Amounts maturing: | | | | |
| Between one and two years | 1,393 | 49 | (6) | 1,436 |
| Between two and five years | 4,553 | 75 | (9) | 4,619 |
| In five years or more | 2,769 | 70 | 608 | 3,447 |
| | 8,715 | 194 | 593 | 9,502 |

### Fair value of borrowings

The fair value of borrowings as at 30 September 2022 is estimated to be £9,030 million (2021: £10,386 million). £9,002 million (2021: £10,334 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

| £ million | Balance sheet amount | Fair value | Balance sheet amount | Fair value |
|---|---|---|---|---|
| | | **2022** | | 2021 |
| GBP | **1,631** | **1,457** | 2,686 | 2,894 |
| EUR | **3,250** | **2,777** | 3,168 | 3,278 |
| USD | **5,098** | **4,768** | 3,916 | 4,162 |
| Total capital market issuance | **9,979** | **9,002** | 9,770 | 10,334 |

### Undrawn revolving credit facilities

At 30 September the Group had the following undrawn committed facilities:

| £ million | 2022 | 2021 |
|---|---|---|
| Amounts maturing: | | |
| Between two and five years | **3,091** | 3,012 |
| | **3,091** | 3,012 |

During the year the maturity date of €3,316 million of the Group's existing syndicated multicurrency facility of €3,500 million was extended to 30 September 2025. One syndicate member opted not to extend their participation of €184 million which has a maturity date of 31 March 2025.

## 20. FINANCIAL RISK FACTORS

### Financial risk management

#### Overview

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group operates a centralised treasury function which is responsible for the management of the financial risks of the Group, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The treasury function is also responsible for the financial risk management of the Group's global defined benefit pension schemes and management of Group wide insurance programs. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Treasury Committee, which meets when required and comprises the Chief Financial Officer, the Company Secretary, the Director of Treasury and three Group Regional Finance Directors. The Treasury Committee operates in accordance with the terms of reference set out by the Board and a framework (the Treasury Committee framework) which sets out the expectations and boundaries to assist in the effective oversight of treasury activities. The Director of Treasury reports on a regular basis to the Treasury Committee.

The Board reviews and approves all major treasury decisions.

The Group's management of financial risks cover the following:

### (A) market risk

#### Price risk

The Group is not exposed to equity securities price risk other than assets held by its pension funds disclosed in note 23, the investment in convertible debentures issued by Auxly Cannabis Group Inc. and an equity holding in Oxford Cannabinoid Technologies PLC. The Group is exposed to commodity price risk in that there may be fluctuations in the price of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical as supply and demand considerations influence tobacco plantings in those countries where tobacco is grown. Also, different regions may experience variations in weather patterns that may affect crop quality or supply and so lead to changes in price. The Group seeks to reduce this price risk by sourcing tobacco leaf from a number of different countries and counterparties and by varying the levels of tobacco leaf held. Currently, these techniques reduce the expected exposure to this risk over the short to medium term to levels considered not material and accordingly, no sensitivity analysis has been presented.

#### Foreign exchange risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions and profits denominated in foreign currencies, as well as the translation of cash, borrowings and derivatives held in non-functional currencies.

The Group's financial results are principally exposed to fluctuations in euro and US dollar exchange rates. Management of the Group's foreign exchange transaction and translation risk is addressed below.

#### Transaction risk

The Group's material transaction exposures arise on costs denominated in currencies other than the functional currencies of subsidiaries, including the purchase of tobacco leaf, which is sourced from various countries but purchased principally in US dollars, and packaging materials which are sourced from various countries and purchased in a number of currencies. The Group is also exposed to transaction foreign exchange risk on the conversion of foreign subsidiary earnings into sterling to fund the external dividends to shareholders. This is managed by selling euros and US dollars monthly throughout the year. Other foreign currency flows are matched where possible and remaining foreign currency transaction exposures are not hedged.

#### Translation risk

The Group seeks to broadly match the currency of borrowings to the currency of its underlying investments in overseas subsidiaries, which are primarily euros and US dollars. The Group issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross-currency swaps, to change the currency of debt as required. Borrowings denominated in, or swapped into foreign currencies to match the Group's investments in overseas subsidiaries are treated as a hedge against the net investment where appropriate.

### Foreign exchange sensitivity analysis

The Group's sensitivity to foreign exchange rate movements, which impacts the translation of monetary items held by subsidiary companies in currencies other than their functional currencies, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant, and that there is no change to the net investment hedge designations in place at 30 September 2022. The sensitivity analysis does not reflect any change to revenue or non-finance costs that may result from changing exchange rates, and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

| £ million | **2022 Increase in income** | 2021 Increase in income |
|---|---|---|
| Income statement impact of non-functional currency foreign exchange exposures: | | |
| 10% appreciation of Sterling against euro (2021: 10%) | **59** | 378 |
| 10% appreciation of Sterling against US dollar (2021: 10%) | **2** | 7 |

An equivalent depreciation of Sterling against the above currencies would cause a decrease in income of £72 million and £2 million for euro and US dollar exchange rates respectively (2021: £462 million and £9 million).

Movements in equity in the table below relate to intercompany loans treated as quasi-equity under IAS 21 and hedging instruments designated as net investment hedges of the Group's euro and US dollar denominated assets.

| £ million | **2022 Change in equity** | 2021 Change in equity |
|---|---|---|
| Equity impact of non-functional currency foreign exchange exposures: | | |
| 10% appreciation of Sterling against euro (2021: 10%) | **621** | 264 |
| 10% appreciation of Sterling against US dollar (2021: 10%) | **276** | 270 |

An equivalent depreciation of Sterling against the above currencies would result in a change in equity of £(759) million and £(338) million for euro and US dollar exchange rates respectively (2021: £(323) million and £(330) million).

At 30 September 2022, after the effect of derivative financial instruments, approximately 80% of the Group's net debt was denominated in euro and non US dollar currencies (2021: 78%), 20% in US dollars (2021: 22%).

### Interest rate risk

The Group's interest rate risk arises from its borrowings net of cash and cash equivalents, with the primary exposures arising from fluctuations in euro and US dollar interest rates. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group manages its exposure to interest rate risk on its borrowings by entering into derivative financial instruments, interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee framework and Treasury Committee discussions.

As at 30 September 2022, after adjusting for the effect of derivative financial instruments detailed in note 21, approximately 103% (2021: 68%) of reported net debt was at fixed rates of interest and (3)% (2021: 32%) was at floating rates of interest. After adjusting for cash held in subsidiary bank accounts and cash in transit, accrued interest, the mark to market of the derivative portfolio and finance leases, approximately 97% (2021: 66%) of debt was at fixed rates of interest and 3% (2021: 34%) was at floating rates of interest.

### Interest rate sensitivity analysis

The Group's sensitivity to interest rates on its euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Group's Income Statement reflects the effect on net finance costs in respect of the Group's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2022, ignoring any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that net debt and the derivatives portfolio remain constant and that there is no net impact on other comprehensive income (2021: £nil).

| £ million | **2022 Change in income** | 2021 Change in income |
|---|---|---|
| Income statement impact of interest rate movements: | | |
| +/- 1% increase in euro interest rates (2021: 1%) | **13** | 28 |
| +/- 1% increase in US dollar interest rates (2021: 1%) | **(9)** | 6 |

### (B) credit risk

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Group is primarily exposed to credit risk arising from the extension of credit to its customers, on cash deposits and derivatives. The maximum aggregate credit risk to these sources was £5,151 million at 30 September 2022 (2021: £4,177 million).

#### Trade and other receivables

Policies are in place to manage the risk associated with the extension of credit to third parties to ensure that commercial intent is balanced effectively with credit risk management. Subsidiaries have policies in place that require appropriate credit checks on customers and credit is extended with consideration to financial risk and creditworthiness. If a customer requires credit beyond an acceptable limit, security may be put in place to minimise the financial impact in the event of a payment default. Instruments that may typically be used as security include non-recourse receivables factoring and bank guarantees. At 30 September 2022 the level of trade receivables that were sold to a financial institution under a non-recourse factoring arrangement, and subsequently derecognised totalled £570 million (2021: £627 million). The total value of trade receivables reclassified as fair value was £50 million at 30 September 2022 (2021: £69 million). There was no valuation difference between amortised cost and fair value. Analysis of trade and other receivables is provided in note 16.

#### Financial instruments

In order to manage its credit risk to any one counterparty, the Group places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In connection with one ISDA Credit Support Annex the Group had placed £12 million as at 30 September 2022 (2021: £37 million) as collateral with a third party in order to manage their counterparty risk on the Group under derivative financial instruments.

The table below summarises the Group's largest exposures to financial counterparties as at 30 September 2022. At the balance sheet date management does not expect these counterparties to default on their current obligations.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| Counterparty exposure | **S&P credit rating** | **Maximum exposure to credit risk £ million** | S&P credit rating | Maximum exposure to credit risk £ million |
| Highest | **A+** | **136** | A+ | 35 |
| 2nd highest | **A-** | **135** | – | – |
| 3rd highest | **A-** | **128** | – | – |
| 4th highest | **A** | **127** | – | – |
| 5th highest | **A+** | **114** | – | – |

### (C) liquidity risk

The Group is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs in any particular location when needed. To manage this risk the Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are structured to ensure that the Group has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank term loans, bank revolving credit facilities and European commercial paper.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2022, the Group held liquid assets of £1,850 million (2021: £1,287 million).

The table below summarises the Group's non derivative financial liabilities by maturity based on their contractual cash flows as at 30 September 2022. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's derivative financial instruments are detailed in note 21.

| £ million | Balance sheet amount | Contractual cash flows total | <1 year | Between 1 and 2 years | Between 2 and 5 years | > 5 years |
|---|---|---|---|---|---|---|
| | | | | | | **2022** |
| Non-derivative financial liabilities: | | | | | | |
| Bank loans | **28** | **28** | **27** | **1** | **–** | **–** |
| Capital market issuance | **9,979** | **11,440** | **1,349** | **1,830** | **5,710** | **2,551** |
| Trade payables | **1,345** | **1,345** | **1,345** | **–** | **–** | **–** |
| Lease liabilities | **248** | **289** | **64** | **56** | **84** | **85** |
| Total non-derivative financial liabilities | **11,600** | **13,102** | **2,785** | **1,887** | **5,794** | **2,636** |

| £ million | Balance sheet amount | Contractual cash flows total | <1 year | Between 1 and 2 years | Between 2 and 5 years | > 5 years |
|---|---|---|---|---|---|---|
| | | | | | | 2021 |
| Non-derivative financial liabilities: | | | | | | |
| Bank loans | 52 | 52 | 51 | 1 | – | – |
| Capital market issuance | 9,770 | 11,158 | 1,341 | 1,678 | 5,068 | 3,071 |
| Trade payables | 1,018 | 1,018 | 1,018 | – | – | – |
| Lease liabilities | 251 | 283 | 64 | 55 | 86 | 78 |
| Total non-derivative financial liabilities | 11,091 | 12,511 | 2,474 | 1,734 | 5,154 | 3,149 |

## Capital management

The Group defines capital as adjusted net debt and equity and manages its capital structure through an appropriate balance of debt and equity in order to drive an efficient mix for the Group. Besides the minimum capitalisation rules that may apply to subsidiaries in certain countries, the Group's only externally imposed capital requirements are interest cover and gearing covenants contained within its core external bank debt facilities, with which the Group was fully compliant during the current and prior periods and expects to be so going forward. Management have assessed that the likelihood of a future covenant breach is remote.

The Group continues to manage its capital structure to maintain investment grade credit rating which it monitors by reference to a number of key financial ratios, including ongoing consideration of the return of capital to shareholders via regular dividend payments and in on-going discussions with the relevant rating agencies.

As at 30 September 2022 the Group was rated Baa3/stable outlook by Moody's Investor Service Ltd, BBB/A-2/stable outlook by Standard and Poor's Credit Market Services Europe Limited and BBB/F3/stable outlook by Fitch Ratings Limited.

The Group regards its total capital as follows.

| £ million | **2022** | 2021 |
|---|---|---|
| Adjusted net debt | **8,054** | 8,615 |
| Equity attributable to the owners of the parent | **6,860** | 5,352 |
| Total capital | **14,914** | 13,967 |

## Hedge accounting

The Group has investments in foreign operations which are consolidated in its financial statements and whose functional currencies are euros or US dollars. Where it is practicable and cost effective to do so, the foreign exchange rate exposures arising from these investments are hedged through the use of cross currency swaps, foreign exchange swaps and foreign currency denominated debt.

The Group only designates the undiscounted spot element of the cross currency swaps, foreign exchange swaps and foreign currency debt as hedging instruments. Changes in the fair value of the cross currency swaps attributable to changes in interest rates and the effect of discounting are recognised directly in profit or loss within the "Finance Costs" line – These amounts are, therefore, not included in the hedge effectiveness assessment.

Net investment gains and losses are reported in exchange movements within other comprehensive income and the hedging instrument foreign currency gains deferred to the foreign currency revaluation reserve are detailed in the statement of changes in equity.

The Group establishes the hedging ratio by matching the notional balance of the hedging instruments with an equal notional balance of the net assets of the foreign operation. Given that only the undiscounted spot element of hedging instruments is designated in the hedging relationship, no ineffectiveness is expected unless the notional balance of the designated hedging instruments exceeds the total balance of the foreign operation's net assets during the reporting period. The foreign currency risk component is determined as the change in the carrying amount of designated net assets of the foreign operation arising solely from changes in spot foreign currency exchange rates.

All net investment hedges were fully effective at 30 September 2022.

The following table sets out the maturity profile of the hedging instruments used in the Group's net investment hedging strategies:

| £ million | Total notional balance | 2022 Maturity <1 year | Between 1 and 2 years | Between 2 and 5 years | > 5 years |
|---|---|---|---|---|---|
| Bonds | (5,378) | (982) | (906) | (3,490) | – |
| Cross-currency swaps | (3,623) | – | (1,475) | (1,596) | (552) |
| Foreign exchange swaps | (273) | (273) | – | – | – |
| | (9,274) | (1,255) | (2,381) | (5,086) | (552) |

| £ million | Total notional balance | 2021 Maturity <1 year | Between 1 and 2 years | Between 2 and 5 years | > 5 years |
|---|---|---|---|---|---|
| Bonds | (5,253) | – | (1,389) | (3,219) | (645) |
| Cross-currency swaps | (2,782) | (1,026) | – | (1,218) | (538) |
| | (8,035) | (1,026) | (1,389) | (4,437) | (1,183) |

The following table contains details of the hedging instruments and hedged items used in the Group's net investment hedging strategies:

| £ million | Notional balance | 2022 Carrying amount Assets | Liabilities | Balance sheet line item | Changes in fair value used for calculating hedge in-effectiveness |
|---|---|---|---|---|---|
| Hedging instrument: | | | | | |
| Bonds | 5,378 | – | 5,414 | Borrowings | (532) |
| Cross-currency swaps | 3,623 | – | 331 | Derivative financial instruments | (117) |
| Foreign exchange swaps | 273 | – | 7 | Derivative financial instruments | – |
| Hedged item: | | | | | |
| Investment in a foreign operation | n/a | 9,274 | | | (649) |

| £ million | Notional balance | 2021 Carrying amount Assets | Liabilities | Balance sheet line item | Changes in fair value used for calculating hedge in-effectiveness |
|---|---|---|---|---|---|
| Hedging instrument: | | | | | |
| Bonds | 5,253 | – | 5,286 | Borrowings | 308 |
| Cross-currency swaps | 2,782 | – | 214 | Derivative financial instruments | 168 |
| Hedged item: | | | | | |
| Investment in a foreign operation | n/a | 8,035 | | | 476 |

### Reconciliation of changes in the value of net investment hedges:

| £ million | At the beginning of the year | Income Statement | Other Comprehensive Income | Designations/ (de-designations) | At the end of the year |
|---|---|---|---|---|---|
| | | | | | **2022** |
| Derivatives in net investment hedges of foreign operations | **(214)** | **(583)** | **(117)** | **576** | **(338)** |
| Bonds in net investment hedges of foreign operations | **(5,286)** | **(3)** | **(532)** | **407** | **(5,414)** |
| | **(7,165)** | **(586)** | **(649)** | **983** | **(5,752)** |

| £ million | At the beginning of the year | Income Statement | Other Comprehensive Income | Designations/ (de-designations) | At the end of the year |
|---|---|---|---|---|---|
| | | | | | 2021 |
| Derivatives in net investment hedges of foreign operations | (410) | 28 | 168 | – | (214) |
| Bonds in net investment hedges of foreign operations | (6,755) | 13 | 308 | 1,148 | (5,286) |
| | (7,165) | 41 | 476 | 1,148 | (5,500) |

The Group also treats certain permanent intragroup loans that meet relevant qualifying criteria under IAS 21 as part of its net investment in foreign operations where appropriate. Intragroup loans with a notional value of €674 million (£595 million equivalent) (2021: €2,506 million (£2,156 million equivalent)) were treated as part of the Group's net investment in foreign operations at the balance sheet date.

### Fair value estimation and hierarchy

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 Inc. 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 £3 million (2021: £19 million) and would have been an £8 million (2021: £49 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 as outlined in note 20.

### Auxly Cannabis Group Inc.

The Group has invested CAD$ 123 million into Auxly Cannabis Group Inc. by way of a debenture convertible to equity at a conversion price of CAD$ 0.81 per share. Repayment of the debenture is due 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% (2021: 14%) plus the application of an expected credit loss provision. At 30 September 2022 the loan was held at a fair value of £17 million (30 September 2021: £37 million), net of an expected credit loss provision of £53 million (30 September 2021: £16 million).

## Netting arrangements of financial instruments

The following tables set out the Group's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Group's Balance Sheet primarily relate to collateral in respect of one derivative financial instrument under an ISDA Credit Support Annex.

| £ million | Gross financial assets/ liabilities | Gross collateral assets/ liabilities set-off | Net financial assets/ liabilities per balance sheet | Related amounts not set-off in the balance sheet | Net |
|---|---|---|---|---|---|
| | | | | | **2022** |
| Assets: | | | | | |
| Derivative financial instruments | **1,051** | **(12)** | **1,039** | **(948)** | **91** |
| Liabilities: | | | | | |
| Derivative financial instruments | **(1,138)** | **12** | **(1,126)** | **948** | **(178)** |

| £ million | Gross financial assets/ liabilities | Gross collateral assets/ liabilities set-off | Net financial assets/ liabilities per balance sheet | Related amounts not set-off in the balance sheet | Net |
|---|---|---|---|---|---|
| | | | | | 2021 |
| Assets: | | | | | |
| Derivative financial instruments | 496 | (37) | 459 | (435) | 24 |
| Liabilities: | | | | | |
| Derivative financial instruments | (1,083) | 37 | (1,046) | 435 | (611) |

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

| £ million | Fair value through income statement | Fair value through other comprehensive income | Assets and liabilities at amortised cost | Total | Current | Non-Current |
|---|---|---|---|---|---|---|
| | | | | | | **2022** |
| Trade and other receivables | **17** | **–** | **2,406** | **2,423** | **2,386** | **37** |
| Cash and cash equivalents | **–** | **–** | **1,850** | **1,850** | **1,850** | **–** |
| Derivatives | **1,039** | **–** | **–** | **1,039** | **54** | **985** |
| Total financial assets | **1,056** | **–** | **4,256** | **5,312** | **4,290** | **1,022** |
| Borrowings | **–** | **–** | **(10,007)** | **(10,007)** | **(1,011)** | **(8,996)** |
| Trade and other payables | **–** | **–** | **(8,710)** | **(8,710)** | **(8,710)** | **–** |
| Derivatives | **(788)** | **(338)** | **–** | **(1,126)** | **(54)** | **(1,072)** |
| Lease liabilities | **–** | **–** | **(248)** | **(248)** | **(58)** | **(190)** |
| Total financial liabilities | **(788)** | **(338)** | **(18,965)** | **(20,091)** | **(9,833)** | **(10,258)** |
| Total net financial assets/(liabilities) | **268** | **(338)** | **(14,709)** | **(14,779)** | **(5,543)** | **(9,236)** |

| £ million | Fair value through income statement | Fair value through other comprehensive income | Assets and liabilities at amortised cost | Total | Current | Non-Current |
|---|---|---|---|---|---|---|
| | | | | | | 2021 |
| Trade and other receivables | 37 | – | 2,611 | 2,648 | 2,590 | 58 |
| Cash and cash equivalents | – | – | 1,287 | 1,287 | 1,287 | – |
| Derivatives | 459 | – | – | 459 | 68 | 391 |
| Total financial assets | 496 | – | 3,898 | 4,394 | 3,945 | 449 |
| Borrowings | – | – | (9,822) | (9,822) | (1,107) | (8,715) |
| Trade and other payables | – | – | (8,373) | (8,373) | (8,373) | – |
| Derivatives | (832) | (214) | – | (1,046) | (62) | (984) |
| Lease liabilities | – | – | (251) | (251) | (57) | (194) |
| Total financial liabilities | (832) | (214) | (18,446) | (19,492) | (9,599) | (9,893) |
| Total net financial liabilities | (336) | (214) | (14,548) | (15,098) | (5,654) | (9,444) |

Derivatives classified as fair value through other comprehensive income relate to cross currency swaps designated as hedges of foreign currency denominated net investments. The Group only designates the undiscounted foreign exchange spot element of the cross currency swaps and the changes in fair value related to this element are posted to other comprehensive income. Changes in the fair value of the cross currency swaps attributable to changes in interest rates and the effect of discounting are recognised in the income statement. The Group also designates certain bonds as hedges of foreign currency denominated net investments and the foreign exchange revaluation of those bonds is recognised in other comprehensive income. The carrying value at 30 September 2022 of those bonds included in the above table is £5,414 million (2021: £5,286 million). All of the Group's net investment hedges remain effective.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

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

| £ million | 2022 Assets | 2022 Liabilities | 2022 Net Fair Value | 2021 Assets | 2021 Liabilities | 2021 Net Fair Value |
|---|---|---|---|---|---|---|
| Current derivative financial instruments: | | | | | | |
| Interest rate swaps | **6** | **(36)** | **(30)** | 60 | (33) | 27 |
| Foreign exchange contracts | **31** | **(13)** | **18** | 4 | (4) | – |
| Cross-currency swaps | **17** | **(5)** | **12** | 4 | (25) | (21) |
| Total current derivatives | **54** | **(54)** | **–** | 68 | (62) | 6 |
| Collateral[1] | **–** | **–** | **–** | – | – | – |
| | **54** | **(54)** | **–** | 68 | (62) | 6 |
| Non-current derivative financial instruments: | | | | | | |
| Interest rate swaps | **680** | **(746)** | **(66)** | 391 | (780) | (389) |
| Cross-currency swaps | **305** | **(338)** | **(33)** | – | (241) | (241) |
| Total non-current derivatives | **985** | **(1,084)** | **(99)** | 391 | (1,021) | (630) |
| Collateral[1] | **–** | **12** | **12** | – | 37 | 37 |
| | **985** | **(1,072)** | **(87)** | 391 | (984) | (593) |
| Total carrying value of derivative financial instruments | **1,039** | **(1,126)** | **(87)** | 459 | (1,046) | (587) |
| Analysed as: | | | | | | |
| Interest rate swaps | **686** | **(782)** | **(96)** | 451 | (813) | (362) |
| Foreign exchange contracts | **31** | **(13)** | **18** | 4 | (4) | – |
| Cross-currency swaps | **322** | **(343)** | **(21)** | 4 | (266) | (262) |
| Collateral[1] | **–** | **12** | **12** | – | 37 | 37 |
| Total carrying value of derivative financial instruments | **1,039** | **(1,126)** | **(87)** | 459 | (1,046) | (587) |

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

Fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date. Market data is sourced from a reputed financial data provider and valuations are validated by comparison 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 £3 million (2021: £19 million) and would have been an £8 million (2021: £49 million) reduction without considering the early termination options. The classification of these derivative assets and liabilities under the IFRS 7 fair value hierarchy is provided in note 20.

### Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of any early termination options being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2022. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Group's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2022. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Group's non derivative financial instruments are detailed in note 20.

| £ million | Balance sheet amount | Contractual cash flows total | <1 year | Between 1 and 2 years | Between 2 and 5 years | >5 years |
|---|---|---|---|---|---|---|
| | | | | | | **2022** |
| Net settled derivatives | **(84)** | **(14,576)** | **(2,739)** | **(2,025)** | **(4,645)** | **(5,167)** |
| Gross settled derivatives | **(3)** | **–** | **–** | **–** | **–** | **–** |
| – receipts | **–** | **26,616** | **5,403** | **6,056** | **9,471** | **5,686** |
| – payments | **–** | **(9,635)** | **(1,851)** | **(3,201)** | **(3,944)** | **(639)** |
| | **(87)** | **2,405** | **813** | **830** | **882** | **(120)** |

| £ million | Balance sheet amount | Contractual cash flows total | <1 year | Between 1 and 2 years | Between 2 and 5 years | >5 years |
|---|---|---|---|---|---|---|
| | | | | | | 2021 |
| Net settled derivatives | (325) | (480) | 16 | (1) | (157) | (338) |
| Gross settled derivatives | (262) | – | – | – | – | – |
| – receipts | – | 5,667 | 2,516 | 66 | 2,522 | 563 |
| – payments | – | (5,818) | (2,521) | (48) | (2,661) | (588) |
| | (587) | (631) | 11 | 17 | (296) | (363) |

### Derivatives as hedging instruments

As outlined in note 20, the Group hedges its underlying interest rate exposure and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross currency swaps. Foreign exchange contracts are used to manage the Group's short term liquidity requirements in line with short term cash flow forecasts as appropriate.

The Group does not apply cash flow or fair value hedge accounting, as permitted under IFRS9, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs unless they are designated as hedges of a net investment in foreign operations, in which case they are recognised in other comprehensive income.

Following the discontinuation of GBP LIBOR at the end of 2021 and the pending US$ LIBOR discontinuation in 2023, in the first half of the fiscal year the Group amended all GBP LIBOR derivatives to reference the daily risk free rate of SONIA instead of GBP LIBOR. All existing US$ LIBOR derivatives will be changed to reference the daily risk free rate of SOFR instead of US$ LIBOR during the last quarter of calendar year 2022. New US$ derivatives transacted during the fiscal year are referencing SOFR. There are no changes pending for EUR derivatives. At present, it is not anticipated that these changes will impact the Group's commercial hedging strategy, nor should they have a material financial impact.

### Interest rate swaps

To manage interest rate risk on its borrowings, the Group issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination or duration, and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates. Interest rate swaps are also transacted to manage and re-profile the Group's interest rate risk over the short, medium and long term in accordance with the Treasury Committee framework and Treasury Committee discussions. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2022, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £9,578 million equivalent (2021: £10,775 million equivalent) with a fair value of £755 million liability (2021: £425 million asset). The fixed interest rates vary from 1.1% to 7.9% (2021: 1.1% to 8.7%), and the floating rates are EURIBOR, SONIA and US dollar LIBOR.

As at 30 September 2022, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £11,548 million equivalent (2021: £8,806 million equivalent) with a fair value of £671 million asset (2021: £750 million liability). The fixed interest rates vary from 0.5% to 4.0% (2021: 0.5% to 4.4%), and the floating rates are EURIBOR, SOFR and US dollar LIBOR. This includes forward starting interest rate swaps with a total notional amount of £3,353 million equivalent (2021: £1,531 million equivalent) with tenors between 1 and 6 years, starting between October 2022 and October 2030.

US dollar interest rate swaps with a total notional amount of US$ 8,240 million will be impacted by the changes to the use of US dollar LIBOR interest rates. However, the impact of the changes is not expected to be material.

### Cross-currency swaps

The Group enters into cross currency swaps to convert the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period unless the swaps are designated as hedges of a net investment in foreign operations, in which case the fair value movement attributable to changes in foreign exchange rates are recognised in other comprehensive income.

As at 30 September 2022, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £1,600 million (2021: £2,600 million) and the fair value of these swaps was £232 million net liability (2021: £214 million net liability); the notional amount of cross currency swaps entered into to convert floating rate US dollar debt into the desired currency at floating rates of interest was US$ 2,250 million (2021: US$ 1,750 million) and the fair value of these swaps was £211 million net asset (2021: £48 million net liability).

### Foreign exchange contracts

The Group enters into foreign exchange contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2022, the notional amount of these contracts was £1,662 million equivalent (2021: £1,430 million equivalent) and the fair value of these contracts was a net asset of £18.5 million (2021: £0.6 million net liability).

### Hedges of net investments in foreign operations

As at 30 September 2022, cross currency swaps with a notional amount of €4,103 million (2021: €3,233 million) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation losses amounting to £105 million (2021: £168 million gains) were recognised within exchange movements in other comprehensive income in respect of cross currency swaps that had been designated as hedges of a net investment in foreign operations. No hedging ineffectiveness occurred during the year (2021: £nil).

As at 30 September 2022, foreign exchange swaps with a notional amount of €309 million (2021: €nil) were designated as hedges of net investments in foreign operations. During the year, foreign exchange translation losses amounting to £12 million (2021: £nil) were recognised within exchange movements in other comprehensive income in respect of foreign exchange swaps that had been designated as hedges of a net investment in foreign operations. No hedging ineffectiveness occurred during the year (2021: £nil).

The movements in Other Comprehensive Income due to net investment hedging in the period were as follows:

| £ million | **2022** | 2021 |
|---|---|---|
| Foreign exchange (losses)/gains on borrowings | **(532)** | 308 |
| Foreign exchange (losses)/gains on derivative financial instruments | **(117)** | 168 |
| Reclassification to the Income Statement | **–** | 117 |
| | **(649)** | 593 |

US dollar cross currency swaps with a total notional amount of US$ 1,750 million will be impacted by the changes to the use of LIBOR interest rates. However, this will not impact the effectiveness of the contracts in their net investment hedge relationship and the calculation of the amounts recognised in other comprehensive income will be unaffected.

## 22. DEFERRED TAX ASSETS AND LIABILITIES

### Deferred tax assets

| £ million | **Consolidated income statement 2022** | Consolidated income statement 2021 | **Consolidated balance sheet 2022** | Consolidated balance sheet 2021 |
|---|---|---|---|---|
| Accelerated depreciation and amortisation | **14** | (7) | **(895)** | (864) |
| Retirement benefits | **(4)** | (38) | **(90)** | (23) |
| Tax credits and losses | **(17)** | 171 | **278** | 301 |
| Accruals, provisions and other temporary differences | **41** | 30 | **185** | 113 |
| Deferred tax expense | **34** | 156 | | |
| Net deferred tax liabilities | | | **(522)** | (473) |

### Reflected in the consolidated balance sheet as follows

| £ million | **2022** | 2021 |
|---|---|---|
| Deferred tax assets | **439** | 564 |
| Deferred tax liabilities | **(961)** | (1,037) |
| | **(552)** | (473) |

### Reconciliation of net deferred tax liabilities

| £ million | **2022** | 2021 |
|---|---|---|
| As at 30 September 2021 | **(473)** | (543) |
| Hyperinflation restatement to 1 October 2021 | **(6)** | – |
| At 1 October 2021 | **(479)** | (543) |
| Charged to the income statement | **34** | 156 |
| Charged to other comprehensive income | **(55)** | (33) |
| Credited to equity | **2** | – |
| Exchange movements | **(18)** | (55) |
| Other movements | **(6)** | 2 |
| As at 30 September | **(522)** | (473) |

## Unrecognised deferred tax assets

| £ million | Gross 2022 | Net 2022 | Gross 2021 | Net 2021 |
|---|---|---|---|---|
| Tax losses | **278** | **75** | 504 | 130 |
| Tax credits | **25** | **25** | 56 | 56 |
| Other temporary differences | **71** | **20** | 47 | 13 |
| | **374** | **120** | 607 | 199 |

## Analysis of unrecognised deferred tax assets by expiry date

| £ million | Gross 2022 | Net 2022 | Gross 2021 | Net 2021 |
|---|---|---|---|---|
| Tax losses expiring: | | | | |
| Within 1 year | **–** | **–** | 4 | 1 |
| Within 2-5 years | **20** | **4** | 36 | 8 |
| No expiry | **258** | **71** | 464 | 121 |
| | **278** | **75** | 504 | 130 |
| Tax credits expiring: | | | | |
| Within 1 year | **22** | **22** | 36 | 36 |
| Within 2-5 years | **1** | **1** | 21 | 21 |
| No expiry | **2** | **2** | – | – |
| | **25** | **25** | 57 | 57 |
| Other temporary differences expiring: | | | | |
| No expiry | **71** | **20** | 47 | 13 |
| | **71** | **20** | 47 | 13 |

Included within net deferred tax liabilities are deferred tax assets recognised of £257 million (2021: £267 million) for tax credits arising in the Group's Spanish business. The majority (£256 million) of these tax credits were recognised in the prior year following an internal reorganisation of the Spanish business. These tax credits have no time expiry. Utilisation of these tax credits is restricted to 50% of the Spanish business' taxable profits arising in any given year; those tax law restrictions extend the period over which the deferred tax assets would otherwise be recovered. The Group considers there to be forecast future taxable profits which support the recognition of these long term deferred tax assets. The period over which these deferred tax assets are utilised is sensitive to forecasting assumptions about future growth rates (which may be influenced by the future effects of climate change) and regulatory changes. Any material effects of climate change in the long term could extend the period over which the deferred tax asset will be recovered but as the tax credits do not expire, the Group considers there is positive evidence that sufficient future taxable profits would still be available. Based on a range of forecast scenarios modelling sensitivities (including the future effects of climate change) these deferred tax assets are expected to be utilised over a period of 18-22 years.

Included within net deferred tax liabilities are deferred tax assets recognised for retirement benefits of £55 million (2021: £157 million) arising in the Group's German business. These deferred tax assets are expected to be recovered both by way of utilisation against the reversal of deferred tax liabilities of £20 million (2021: £33 million) arising in the Group's German business and by way of utilisation against future taxable profits. The Group considers there to be forecast future taxable profits which support the recognition of these long term deferred tax assets. These deferred tax assets are expected to be recovered over a period of 20-40 years corresponding to the life of the pension scheme.

We have reviewed the recoverability of deferred tax assets in overseas territories in the light of forecast business performance. In 2022 we have recognised deferred tax assets of £1 million that were previously unrecognised (2021: recognised deferred tax assets of £8 million that were previously unrecognised) on the basis that it is more likely than not that these are recoverable (2021: recoverable).

A deferred tax liability of £43 million (2021: £101 million) is recognised in respect of taxation expected to arise on the future distribution of unremitted earnings totalling £2 billion (2021: £5 billion).

The temporary differences associated with investments in the Group's subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised in the periods presented, aggregate to £1,244 million (£37 million net) (2021: £1,027 million (£29 million net)). No liability has been recognised because the Group is in a position to control the timing of the reversal of those temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 23. 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; these schemes represent 62%, 15% and 10% of the Group's total defined benefit obligations and 31%, 32% and 10% of the current service cost respectively.

### Imperial Tobacco Pension Fund

The UK scheme, the Imperial Tobacco Pension Fund (or 'ITPF' or 'Fund'), is a capped final salary pension scheme with a normal retirement age of 60 for most members, pensionable pay was capped as at 1 September 2017 to £75,000 (or actual pensionable pay if it was higher at that date). The ITPF was offered to employees who joined the company before 1 October 2010 and has a weighted average maturity of 12 years. By number, the population as at the most recent funding valuation comprises 78% in respect of pensioners and dependants, 21% in respect of deferred members and 1% in respect of current employees. New employees in the UK are now enrolled into a defined contribution scheme. In certain circumstances, surplus funds in the defined benefit section, may be used to finance defined contribution section contributions on ITL's behalf with company contributions reduced accordingly.

The ITPF operates under trust law and is managed and administered by the Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The ITPF's assets are held by the trust.

The main risk for the Group in respect of the ITPF is that additional contributions are required if the assets are not expected to be sufficient to pay for the benefits. The investment portfolio is subject to a range of risks typical of the asset classes held, such as credit risk on bonds, and exposure to the property market.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the ITPF are future inflation levels (including the impact of inflation on future salary increases below the pensionable pay cap) and the actual longevity of the membership.

The contributions paid to the ITPF are set by the ITPF Scheme Actuary every three years. The Scheme Actuary is an external consultant, appointed by the Trustees. Principal factors that the Scheme Actuary will have regard to include the covenant offered by the Group, the level of risk in the ITPF, the expected returns on the ITPF's assets, the results of the funding assessment on an ongoing basis and the expected cost of securing benefits if the Fund were to be wound up.

A new valuation is underway as at 31 March 2022 and will be finalised during the first half of 2023. The last valuation in 2019 reported total assets of £4,137 million which covered 110% of past service liabilities. Following the 2019 valuation, a dynamic contribution schedule was agreed such that ITL's annual contributions will reduce or increase depending on the ITPF's valuation going forward. The level of the ITL's annual contribution to the Fund was £50 million for the year to 31 March 2022, no contributions are expected for the year to 31 March 2023. Further contributions were agreed to be paid by ITL in the event of a downgrade of the Group's credit rating to non-investment grade by either Standard & Poor's or Moody's. In addition, surety guarantees with a total value of £225 million and a parental guarantee from Imperial Brands PLC remains in place.

The ITPF undertook a key de-risking step in purchasing a buy-in policy with Standard Life in December 2021 covering around 60% of the current pensioner liabilities. The buy-in eliminates investment return, longevity, inflation and funding risks in respect of those liabilities covered. The buy-in is held as an asset of the ITPF.

The IAS 19 liability measurement of the defined benefit obligation (DBO) and the current service cost are sensitive to the assumptions made about future inflation and salary growth levels, as well as the assumptions made about life expectancy. They are also sensitive to the discount rate, which depends on market yields on sterling denominated AA corporate bonds. The main differences between the funding and IAS 19 assumptions are a more prudent longevity assumption for funding and a different approach to setting the discount rate. A consequence of the ITPF's investment strategy, with a proportion of the assets invested in return-seeking assets, is that the difference between the market value of the assets and the IAS 19 liabilities may be relatively volatile.

The ITPF has a pension surplus on the IAS 19 measure, in line with IFRIC 14, recognition of the net asset on the fund is only appropriate where it can be recovered. The ITPF trust deed gives the Group an ability to receive a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up the ITPF or otherwise augment the benefits due to the ITPF's members. Based on these circumstances, any net surplus in this scheme is recognised in full.

### The Reemtsma Cigarettenfabriken Pension Plan

The German scheme, the Reemtsma Cigarettenfabriken Pension Plan (RCPP), is primarily a career average pension plan, though a small group of members has final salary benefits. It has a weighted average maturity of 18 years. The scheme population comprises 51% in respect of pensioners, 19% in respect of deferred members and 30% in respect of current employees. It was closed to new members from 1 January 2020, but existing active members at that date continue to accrue benefits in the plan.

The plan is unfunded and the company pays benefits as they arise. The plan's obligations arise under a works council agreement and are subject to standard German legal requirements around such matters as the benefits to be provided to employees who leave service, and pension increases in payment. Over the next year Reemtsma Cigarettenfabriken GmbH expects to pay £23 million in respect of benefits.

Annual increases in benefits in payment are dependent on inflation so the main uncertainties affecting the level of benefits payable under the plan are future inflation levels and the actual longevity of the membership.

The IAS 19 liability measurement of the DBO and the current service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on euro denominated AA corporate bonds.

### ITG Scheme

The main USA pension scheme, held by ITG Brands is the ITG Scheme, is a defined benefit pension plan that is closed to new entrants. It has a weighted average maturity of 9 years. The population comprises 79% in respect of pensioners, 9% in respect of deferred members and 12% in respect of current employees.

The plan is funded and benefits are paid from the plan assets. Contributions to the plan are determined based on US regulatory requirements and ITG Brands is not expected to make any contributions in the next year.

Annual benefits in payment are assumed not to increase from current levels. The main uncertainty affecting the level of benefits payable under the plan is the actual longevity of the membership. Other key uncertainties impacting the plan include investment risk and potential past service benefit changes from future negotiations.

The IAS 19 liability measurement of the DBO and the service cost are sensitive to the assumptions made about the above variables, as well as the discount rate, which depends on market yields on US dollar denominated AA corporate bonds.

### Other plans

Other plans of the Group include various pension plans, other post-employment and long-term employee benefit plans in several countries of operation. Many of the plans are funded, with assets backing the obligations held in separate legal vehicles such as trusts, others are operated on an unfunded basis. The benefits provided, the approach to funding and the legal basis of the plans reflect their local territories. IAS 19 requires that the discount rate for calculating the DBO and service cost is set according to the level of relevant market yields on corporate bonds where the market is considered "deep", or government bonds where it is not.

For the year ended 30 September 2022 the Group included no new schemes in the IAS19 position following a review of the pension schemes in the Group.

The results of the most recent available actuarial valuations for the various plans have been updated to 30 September 2022 in order to determine the amounts to be included in the Group's consolidated financial statements. The aggregate IAS 19 position is as follows:

### Defined benefit plans

| | | | 2022 | | | 2021 |
|---|---|---|---|---|---|---|
| £ million | **DBO** | **Assets** | **Total** | DBO | Assets | Total |
| At 1 October | **(5,319)** | **5,166** | **(153)** | (5,498) | 5,182 | (316) |
| Consolidated income statement expense: | | | | | | |
| Current service cost | **(49)** | **–** | **(49)** | (47) | – | (47) |
| Settlements gains/(losses) | **136** | **(139)** | **(3)** | 13 | (13) | – |
| Past service (costs)/income | **(2)** | **–** | **(2)** | 9 | – | 9 |
| Cost of termination benefits | **(10)** | **–** | **(10)** | (18) | – | (18) |
| Net interest (expense)/income on net defined benefit (liability)/asset | **(99)** | **107** | **8** | (87) | 89 | 2 |
| Administration costs paid from plan assets | **–** | **(5)** | **(5)** | – | (5) | (5) |
| Cost recognised in the income statement | | | **(61)** | | | (59) |
| Remeasurements: | | | | | | |
| Actuarial (loss)/gain due to liability experience | **(94)** | **–** | **(94)** | 64 | – | 64 |
| Actuarial gain/(loss) due to financial assumption changes | **1,659** | **–** | **1,659** | (114) | – | (114) |
| Actuarial gain due to demographic assumption changes | **10** | **–** | **10** | 4 | – | 4 |
| Return on plan assets excluding amounts included in net interest (expense)/income above | **–** | **(1,499)** | **(1,499)** | – | 87 | 87 |
| Remeasurement effects recognised in other comprehensive income | | | **76** | | | 41 |
| Cash: | | | | | | |
| Employer contributions | **–** | **120** | **120** | – | 126 | 126 |
| Employee contributions | **(1)** | **1** | **–** | (1) | 1 | – |
| Benefits paid directly by the company | **311** | **(311)** | **–** | 264 | (264) | – |
| Benefits paid from plan assets | **–** | **–** | **–** | – | – | – |
| Net cash | | | **120** | | | 126 |
| Schemes brought into scope of IAS19 | **–** | **–** | **–** | (13) | – | (13) |
| Exchange movements | **(151)** | **101** | **(50)** | 105 | (37) | 68 |
| Total other | | | **(50)** | | | 55 |
| At 30 September | **(3,609)** | **3,541** | **(68)** | (5,319) | 5,166 | (153) |

The cost of termination benefits in the year ended 30 September 2022 and 30 September 2021 mainly relate to restructuring activity in Germany.

### Retirement benefit scheme costs charged to operating profit

| £ million | 2022 | 2021 |
|---|---|---|
| Defined benefit expense in operating profit | **69** | 61 |
| Defined contribution expense in operating profit | **16** | 19 |
| Total retirement benefit scheme cost in operating profit | **85** | 80 |

### Split as follows in the consolidated income statement:

| £ million | 2022 | 2021 |
|---|---|---|
| Cost of sales | **25** | 26 |
| Distribution, advertising and selling costs | **39** | 33 |
| Administrative and other expenses | **21** | 21 |
| Total retirement benefit scheme costs in operating profit | **85** | 80 |

### Assets and liabilities recognised in the consolidated balance sheet

| £ million | 2022 | 2021 |
|---|---|---|
| Retirement benefit assets | **826** | 1,046 |
| Retirement benefit liabilities | **(894)** | (1,199) |
| Net retirement benefit liability | **(68)** | (153) |

### Key figures and assumptions used for major plans

| | | | 2022 | | | 2021 |
|---|---|---|---|---|---|---|
| £ million unless otherwise indicated | **ITPF** | **RCPP** | **ITGBH** | ITPF | RCPP | ITGBH |
| Defined benefit obligation (DBO) | **2,229** | **538** | **365** | 3,404 | 765 | 403 |
| Fair value of scheme assets | **(2,958)** | **–** | **(405)** | (4,386) | – | (396) |
| Net defined benefit (asset)/liability | **(729)** | **538** | **(40)** | (982) | 765 | 7 |
| Current service cost | **15** | **15** | **3** | 17 | 15 | 3 |
| Employer contributions | **50** | **–** | **–** | 65 | – | – |
| Principal actuarial assumptions used (% per annum) | | | | | | |
| Discount rate | **5.3** | **3.7** | **5.4** | 2.1 | 1.1 | 2.7 |
| Future salary increases | **3.7** | **3.7** | **n/a** | 3.4 | 3.1 | n/a |
| Future pension increases | **3.7** | **2.5** | **n/a** | 3.4 | 2.0 | n/a |
| Inflation | **3.7** | **2.5** | **2.3** | 3.4 | 2.0 | 2.3 |

| | | | | | | **2022** |
|---|---|---|---|---|---|---|
| | | **ITPF** | | **RCPP** | | **ITGBH** |
| | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** |
| Life expectancy at age 65 years: | | | | | | |
| Member currently aged 65 | **21.1** | **22.4** | **20.5** | **23.9** | **19.7** | **21.7** |
| Member currently aged 50 | **21.8** | **23.7** | **22.6** | **25.6** | **20.9** | **22.9** |

| | | | | | | 2021 |
|---|---|---|---|---|---|---|
| | | ITPF | | RCPP | | ITGBH |
| | Male | Female | Male | Female | Male | Female |
| Life expectancy at age 65 years: | | | | | | |
| Member currently aged 65 | 21.1 | 22.7 | 20.5 | 23.9 | 19.7 | 21.7 |
| Member currently aged 50 | 22.1 | 23.9 | 22.6 | 25.6 | 20.9 | 22.9 |

Assumptions regarding future mortality experience are set based on advice that uses published statistics and experience in each territory. In particular for the ITPF, SAPS S3 (2021: SAPS S3) tables are used with various adjustments for different groups of members, reflecting observed experience. The largest group of members uses the SAPS S3 All Pensioner Male Amounts Middle table with a 105% multiplier. An allowance for improvements in longevity is made using the 2021 (2021: 2018) CMI improvement rates with a long-term trend of 1.25% per annum.

### Sensitivity analysis for key assumptions at the end of the year

Sensitivity analysis is illustrative only and is provided to demonstrate the degree of sensitivity of results to key assumptions. Generally, estimates are made by re-performing calculations with one assumption modified and all others held constant.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| % increase in DBO | **ITPF** | **RCPP** | **ITGBH** | ITPF | RCPP | ITGBH |
| Discount rate: 0.5% decrease | **6.1** | **9.5** | **4.9** | 8.6 | 10.8 | 5.8 |
| Rate of inflation: 0.5% decrease | **(4.9)** | **(6.3)** | **n/a** | (6.9) | (7.0) | n/a |
| One year increase in longevity for a member currently age 65, corresponding changes at other ages | **3.7** | **4.7** | **4.6** | 5.1 | 5.1 | 5.1 |

The sensitivity to the inflation assumption change includes corresponding changes to the future salary increases and future pension increases assumptions, but is assumed to be independent of any change to discount rate.

We estimate that a 0.5% decrease in the discount rate at the start of the year would have increased the consolidated income statement pension expense by approximately £22 million.

An approximate split of the major categories of ITPF scheme assets is as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| £ million unless otherwise indicated | **Fair value** | **Percentage of ITPF scheme assets** | Fair value | Percentage of ITPF scheme assets |
| Bonds – index linked government | **409** | **14** | 2,115 | 48 |
| Bonds – corporate and other | **34** | **1** | 815 | 19 |
| Property | **604** | **20** | 592 | 14 |
| Absolute return | **827** | **28** | 849 | 19 |
| Insurance contract | **1,058** | **36** | – | – |
| Other – including derivatives, commodities and cash | **26** | **1** | 15 | – |
| | **2,958** | **100** | 4,386 | 100 |

The primary investment objective is to invest the ITPF's assets in an appropriate and secure manner such that members' benefit entitlements can be paid as they fall due. Specifically the ITPF targets an expected return in excess of the growth in the liabilities, which in conjunction with the contributions paid is consistent to achieve and maintain an ongoing funding level of at least 100 % on a buy-out basis by 2028.

The majority of the assets are non-quoted. The ITPF holds £nil of self-invested assets (2021: £nil). As in previous years, the value of ground leases have been allocated to the property asset class.

An approximate split of the major categories of ITGBH scheme assets is as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| £ million unless otherwise indicated | **Fair value** | **Percentage of ITGBH scheme assets** | Fair value | Percentage of ITGBH scheme assets |
| Investment funds | **–** | **–** | 279 | 70 |
| Bonds – fixed government | **–** | **–** | 20 | 5 |
| Bonds – corporate and other | **–** | **–** | 63 | 16 |
| Other – including derivatives, commodities and cash | **405** | **100** | 34 | 9 |
| | **405** | **100** | 396 | 100 |

The majority of the assets are non-quoted.

## 24. PROVISIONS

| £ million | Restructuring | Other | 2022 Total |
|---|---|---|---|
| At 1 October 2021 | 251 | 143 | 394 |
| Additional provisions charged to the consolidated income statement | 115 | 46 | 161 |
| Amounts used | (61) | (13) | (74) |
| Unused amounts reversed | (27) | (39) | (66) |
| Exchange movements | 8 | 3 | 11 |
| At 30 September 2022 | 286 | 140 | 426 |

Analysed as:

| £ million | 2022 | 2021 |
|---|---|---|
| Current | 203 | 188 |
| Non-current | 223 | 206 |
| | 426 | 394 |

Restructuring provisions relate mainly to our 2021 strategic review programme and cost optimisation programmes (see note 5).

The restructuring provision is split between 2021 strategic review programme of £155 million, cost optimisation programmes of £121 million and other programmes of £10 million.

Within the cost optimisation programme provisions there is £67 million related to costs of consolidating the manufacturing capacity within the Group.

Other provisions include £46 million relating to various local tax or duty requirements, £37 million relating to local employment requirements including holiday pay, £21 million of distribution requirements relating to employment and duty and £21 million of market exit provisions. 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.

## 25. SHARE CAPITAL

| £ million | 2022 | 2021 |
|---|---|---|
| Authorised, issued and fully paid | | |
| 1,020,697,238 ordinary shares of 10p each (2021: 1,020,697,238) | 103 | 103 |

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve, and between September 2017 and December 2017, 4,973,916 shares were cancelled increasing this reserve.

## 26. SHARE SCHEMES

The Group operates four types of share-based incentive programmes, designed to incentivise staff and to encourage them to build a stake in the Group.

### Share matching scheme

Awards are made to eligible employees who are invited to invest a proportion of their eligible bonus in shares for a period of three years, after which matching shares are awarded on a 1:1 ratio, plus dividend equivalents.

### Long term incentive plan (LTIP)

Awards of shares under the LTIP are made to the Executive Directors and senior executives at the discretion of the Remuneration Committee. They vest three years after grant and are subject to performance criteria. Dividend equivalents accrue on vested shares.

### Sharesave plan

Options are granted to eligible employees who participate in a designated savings scheme for a three year period. Historically they were also granted for a five year period.

### Discretionary share awards plan (DSAP)

Under the DSAP, one-off conditional awards are made to individuals to recognise exceptional contributions within the business. Awards, which are not subject to performance conditions and under which vested shares do not attract dividend roll-up, will normally vest on the third anniversary of the date of grant subject to the participant's continued employment. The limit of an award under the DSAP is capped at 25% of the participant's salary at the date of grant. Shares used to settle awards under the DSAP will be market purchased.

Further details of the schemes including additional criteria applying to Directors and some senior executives are set out in the Directors' Remuneration Report.

### Analysis of charge to the consolidated income statement

| £ million | 2022 | 2021 |
|---|---|---|
| Share Matching Scheme | **2** | 3 |
| Long Term Incentive Plan | **25** | 20 |
| Sharesave Plan | **1** | 1 |
| Discretionary Share Awards Plan | **1** | 1 |
| | **29** | 25 |

The awards are predominantly equity settled. The balance sheet liability in respect of cash settled schemes at 30 September 2022 was £3.6 million (2021 £1.8 million).

### Reconciliation of movements in awards/options

| Thousands of shares unless otherwise indicated | Share matching scheme awards | LTIP awards | Sharesave options | DSAP awards | Sharesave weighted average exercise price £ |
|---|---|---|---|---|---|
| | | | | | **2022** |
| Outstanding at 1 October 2021 | **482** | **7,412** | **2,053** | **60** | **13.89** |
| Granted | **192** | **2,658** | **274** | **106** | **14.56** |
| Lapsed/cancelled | **(23)** | **(873)** | **(321)** | **(5)** | **18.11** |
| Exercised | **(165)** | **(1,077)** | **(72)** | **(41)** | **16.14** |
| Outstanding at 30 September 2022 | **486** | **8,120** | **1,934** | **120** | **13.21** |
| Exercisable at 30 September 2022 | **–** | **–** | **151** | **–** | **17.45** |

| Thousands of shares unless otherwise indicated | Share matching awards | LTIP awards | Sharesave options | DSAP awards | Sharesave weighted average exercise price £ |
|---|---|---|---|---|---|
| | | | | | 2021 |
| Outstanding at 1 October 2020 | 461 | 6,595 | 2,006 | 70 | 15.31 |
| Granted | 253 | 3,763 | 371 | 17 | 13.09 |
| Lapsed/cancelled | (25) | (2,003) | (323) | (3) | 21.74 |
| Exercised | (207) | (943) | (1) | (24) | 5.45 |
| Outstanding at 30 September 2021 | 482 | 7,412 | 2,053 | 60 | 13.89 |
| Exercisable at 30 September 2021 | – | – | 170 | – | 22.24 |

The weighted average Imperial Brands PLC share price at the date of exercise of awards and options was £16.83 (2021: £14.96). The weighted average fair value of Sharesave options granted during the year was £3.30 (2021: £2.35).

## Summary of awards/options outstanding at 30 September 2022

| Thousands of shares unless otherwise indicated | Number of awards/options outstanding | Vesting period remaining in months | Exercise price of options outstanding £ |
|---|---|---|---|
| Share Matching Scheme | | | |
| 2020 | 139 | 5 | n/a |
| 2021 | 197 | 17 | n/a |
| 2022 | 151 | 29 | n/a |
| Total awards outstanding | 487 | | |
| | | | |
| Long Term Incentive Plan | | | |
| 2020 | 2,137 | 10 | n/a |
| 2021 | 2,815 | 19 | n/a |
| 2022 | 3,168 | 29 | n/a |
| Total awards outstanding | 8,120 | | |
| | | | |
| Sharesave Plan | | | |
| 2019 | 151 | – | 17.45 |
| 2020 | 1,161 | 11 | 12.37 |
| 2021 | 340 | 23 | 13.09 |
| 2022 | 273 | 33 | 14.56 |
| Total options outstanding | 1,925 | | |
| | | | |
| Discretionary Share Awards Plan | | | |
| 2021 | 13 | 17 | n/a |
| 2022 | 106 | 30 | n/a |
| Total options outstanding | 119 | | |

The vesting period is the period between the grant of awards or options and the earliest date on which they are exercisable. The vesting period remaining and the exercise price of options outstanding are weighted averages. Participants in the Sharesave Plan have six months from the maturity date to exercise their option. Participants in the LTIP generally have seven years from the end of the vesting period to exercise their option. The exercise price of the options is fixed over the life of each option.

### Pricing

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for the Share Matching Scheme, Sharesave Plan, Discretionary Shares Awards Plan and one Long Term Incentive Plan with no market conditions. A summary of the assumptions used in the Black-Scholes model for 2022 and 2021 is as follows:

| | | | 2022 |
|---|---|---|---|
| | Share matching | Sharesave | DSAP |
| Risk-free interest rate % | 2.0 | 1.2-2.2 | 2.0-2.2 |
| Volatility (based on 3 or 5 year history) % | 35.5 | 35.3-35.5 | 35.5 |
| Expected lives of options granted years | 3.0 | 3.0 | 3.0 |
| Dividend yield % | 9.2 | 9.2 | 9.2 |
| Fair value £ | 10.35 | 3.21-3.31 | 10.35-10.67 |
| Share price used to determine exercise price £ | 13.65 | 17.83-18.39 | 13.65-14.08 |
| Exercise price £ | n/a | 14.56 | n/a |

| | | | 2021 |
|---|---|---|---|
| | Share matching | Sharesave | DSAP |
| Risk-free interest rate % | 0.7 | (0.4)-0.2 | 0.7 |
| Volatility (based on 3 or 5 year history) % | 36.0 | 33.9 | 26.3 |
| Expected lives of options granted years | 3.0 | 3.0 | 3.0 |
| Dividend yield % | 8.9 | 8.9 | 6.7 |
| Fair value £ | 12.37 | 2.31-2.56 | 12.86 |
| Share price used to determine exercise price £ | 16.00 | 16.00 | 15.27 |
| Exercise price £ | n/a | 13.09 | n/a |

Market conditions were incorporated into the Monte Carlo method used in determining the fair value of LTIP awards at grant date. Assumptions in 2022 and 2021 are given in the following table:

| % | 2022 | 2021 |
|---|---|---|
| Future Imperial Brands share price volatility | **29.6** | 31.2 |
| Future Imperial Brands dividend yield | **–** | – |
| Share price volatility of the tobacco and alcohol comparator group | **17.0-83.7** | 17.4-40.9 |
| Correlation between Imperial Tobacco and the alcohol and tobacco comparator group | **24.4** | 26.7 |

### Employee share ownership trusts

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust (the Trusts) have been established to acquire ordinary shares in the Company to satisfy rights to shares arising on the exercise and vesting of options and awards. The purchase of shares by the Trusts has been financed by a gift of £19.2 million and an interest free loan of £147.5 million. In addition, the Group has gifted treasury shares to the Trusts. None of the Trusts' shares has been allocated to employees or Executive Directors as at 30 September 2022. All finance costs and administration expenses connected with the Trusts are charged to the consolidated income statement as they accrue. The Trusts have waived their rights to dividends and the shares held by the Trusts are excluded from the calculation of basic earnings per share.

### Shares held by employee share ownership trusts

| Millions of shares | 2022 | 2021 |
|---|---|---|
| At 1 October | **0.9** | 2.1 |
| Gift of shares from Treasury | **4.0** | – |
| Distribution of shares held by Employee Share Ownership Trusts | **(1.2)** | (1.2) |
| At 30 September | **3.7** | 0.9 |

The shares in the Trusts are accounted for on a first in first out basis and comprise nil shares acquired in the open market (2021: nil) and £3.7 million (2021: £0.9 million) treasury shares gifted to the Trusts by the Group. There were 4 million shares (2021: nil) gifted in the year ended 30 September 2022.

## 27. TREASURY SHARES

Subject to authorisation by special resolution, the Group may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of Group's issued share capital. Shares held in treasury do not qualify for dividends. Although the Group did not purchase any shares during the period, a share buyback programme was initiated after the balance sheet date, and these shares will be cancelled on completion of the purchase. Treasury shares reduced in the period after 4.0 million shares were gifted to the Employee Share Ownership Trusts to satisfy commitments to the employee share schemes.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| £ million unless otherwise indicated | **Millions of shares (number)** | **Value £** | Millions of shares (number) | Value £ |
| At 1 October | **74.3** | **2,183** | 74.3 | 2,183 |
| Gifted to Employee Share Ownership Trusts | **(4.0)** | **–** | – | – |
| At 30 September | **70.3** | **2,183** | 74.3 | 2,183 |
| Percentage of issued share capital | **6.9** | **n/a** | 7.3 | n/a |

## 28. COMMITMENTS

### Capital commitments

| £ million | 2022 | 2021 |
|---|---|---|
| Contracted but not provided for: | | |
| Property, plant and equipment and software | **95** | 86 |

## 29. CONTINGENT LIABILITIES

The following summary includes updates to matters that have developed since the 2021 Annual Report and Accounts.

### USA state settlement agreements

In November 1998, the major United States 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 Brands (ITGB) is a party to the MSA and to the Mississippi, Minnesota, and Texas 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, ITGB has been involved in litigation and other disputes with the Previously Settled States, Philip Morris, and Reynolds in their state courts. ITGB 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. All cases have now been resolved with the exception of Delaware court which involves Reynolds' claim to indemnity for Florida settlement payments. Amounts at issue range from US$ 73 million to US$ 182 million through 2021, plus interest and attorney's fees, and US$ 20 million to US$ 29 million annually going forward. Details are provided below.

#### Delaware

ITGB and Reynolds are engaged in litigation in the Delaware court with respect to whether ITGB has satisfied its obligations to use "reasonable best efforts" to join the settlements with Florida, Minnesota and Texas under the APA through which ITGB purchased the Acquired Brands and whether regardless of that "reasonable best efforts" requirement whether ITGB is required to indemnify Reynolds for amounts other courts may require Reynolds to pay. On 30 November 2017, on cross-motions by Reynolds and ITGB, the Delaware court held that the "reasonable best efforts" provision did not automatically terminate due to the transaction closing, but determined further that the duty of reasonable best efforts was not perpetual and that whether ITGB complied with that obligation is a question of fact that the court has not decided. On 23 September 2019, the Delaware court denied a motion by Reynolds to hold ITGB liable under other indemnity provisions of the APA for Reynolds' liability under the Florida decision irrespective of whether ITGB breached a duty of reasonable best efforts, finding a fact question on that argument. The parties filed summary judgment motions. A trial was set for 24 October 2022. On 30 September 2022, the trial court granted summary judgment to Reynolds and denied summary judgment to ITGB. It held that the Florida court's determination that ITGB did not assume payments under the Florida settlement unless it agreed to do so was not binding on the Delaware courts under principles of issue preclusion under Florida law, and further held that as a matter of law the contract provisions were unambiguous and no evidence was required to determine that ITGB had assumed and was required to indemnify Reynolds for Florida settlement payments. The court did not determine the amount of Reynolds' damages but left that question open for further proceedings. The parties have submitted an agreed schedule to the court to address the issue of damages which would result in initial motions on that issue being submitted by mid-January 2023.

Reynolds originally sought indemnification for all amounts it might be required to pay in settlement for the Acquired Brands in the Florida, Minnesota, and Texas litigations, described above. The portions of the Delaware dispute that related to Minnesota and Texas have been settled and dismissed, however, so Reynolds' claim for indemnification in Delaware is now limited to the amounts it has been required to pay under the Florida determination described above, plus interest and attorney's fees. ITGB continues to deny that indemnity is appropriate and intends to appeal that determination, and further contends that Reynolds' damages should be substantially reduced by the amount by which Reynolds' settlement payments have been reduced through operation of the "profit adjustment" by reason of ITGB not becoming a party to the Florida settlement as well as by reason of Reynolds' and third-parties' conduct. Based on the current facts and circumstances we consider it improbable that this potential liability will crystalise and therefore no provision has been recognised.

#### MSA previously settled states reduction

The MSA contains a downward adjustment, called the Previously Settled States Reduction, which reduces aggregate payments made by Philip Morris, Reynolds, and ITGB by a specified percentage each year. The State of California, later joined by the remainder of the MSA states and by Philip Morris, challenged the application of that Reduction to ITGB for every year from 2016 forward, claiming that it cannot apply to ITGB since it is not making settlement payments to Florida, Minnesota, or Texas under their settlements. The Independent Auditor to the MSA, which initially addresses disputes related to payments, has rejected that challenge every year. It is possible that one of the parties making the challenge may seek to arbitrate the claim under the MSA. The PSS Reduction provides annual MSA payment reductions of c. US$ 65 million.

#### Overall summary of liability position associated with USA state settlement agreements

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

### Product liability matters

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

### Competition authority investigations

#### 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. On 1 October 2021 the BCA announced that it had issued a Proposal for Decision which alleges the existence of anticompetitive practices in the tobacco industry that lasted for several years and consisted in repeated indirect exchanges of information on manufacturers' prices through wholesalers. The BCA stated that such conduct may be contrary to Article IV.1 CEL and Article 101 TFEU.

Following the parties' defence and a hearing, an infringement Decision was issued in April 2022 by the BCA Competition College imposing a fine of €7.14 million on the Company's Belgian subsidiary, payable within 30 Days of the notification of the Decision. This amount had been paid and accounted for during the year so no provision or contingent liability remains at the year-end relating to this case. An appeal to the Market Court in Brussels was made on 18 May 2022. The parties will exchange submissions ahead of the Market Court hearing on 23 and 30 November 2022.

#### 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. In the Logista appeal, Logista submitted their pleadings before the High Spanish Court in February 2021. The judgment of the Court of First Instance is currently pending.

### Other litigation

#### US Helms-Burton litigation

Imperial has been named as a defendant in a civil action in federal court in Miami, Florida under Title III of the Cuban Liberty and Democratic Solidarity Act of 1996 ("Helms-Burton") filed on 6 August 2020. Title III provides United States nationals with a cause of action and a claim for treble damages against persons who have "trafficked" in property expropriated by the Cuban government. Treble damages are automatically available under Helms-Burton. Although the filed claim is for unquantified damages, we understand the claim could potentially reach approximately US$ 365 million, based on the claimants' claim to own 90% of the property, which they value at US$ 135 million (and then treble). The claim is based on allegations that Imperial, through Corporación Habanos S.A. (a joint venture between one of Imperial's now former subsidiaries and the Cuban government), has "trafficked" in a factory in Havana, Cuba that the Cuban government confiscated from the claimants' ancestor in the early 1960s, by using the factory to manufacture, market, sell, and distribute Habanos cigars.

At the time the claim was filed against Imperial and up until the conclusion of the Brexit "transition period" on 31 December 2020, Imperial was subject to an EU law known as the EU Blocking Statute (Regulation (EC) No. 2271/96), which conflicts with Helms-Burton, protected Imperial against the impact of Title III, and impacted how Imperial might respond to the threatened litigation. The EU Blocking Statute has been transposed into domestic law with only minimal changes. Accordingly, on 10 January 2021, Imperial submitted an application to the UK Department for International Trade for authorisation from the Secretary of State for International Trade to defend the action or, at a minimum, to file and litigate a motion to dismiss the action. On 8 February 2021, the United Kingdom Secretary of State for International Trade authorised Imperial to file and litigate a motion to dismiss the action.

A hearing on the motion to dismiss took place on 26 July 2022 before a magistrate judge. On 2 November 2022 the magistrate judge recommended that the action be dismissed, without prejudice to re-filing in a proper venue. The district judge will review the recommendation, consider any objections to the recommendation filed by the parties, and issue a final order on the motion to dismiss. In the event the motion to dismiss is denied, the court has set a schedule for further proceedings, with trial commencing in July 2023. No provision has been made for potential liabilities related to this claim. The magistrate judge has recommended that the action be dismissed. In the event the district judge rejects that recommendation and the motion to dismiss is denied, the Company will have an opportunity to file a defence to the claim on the merits.

### UK

In June 2020, the Group responded to a claimant law firm's allegation 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 United Kingdom High Court against Imperial Brands plc, Imperial Tobacco Limited and four of its subsidiaries (the Imperial Defendants) and two entities in the British American Tobacco (BAT) group by a group of tobacco farm workers. The Imperial Defendants have acknowledged service and confirmed to the claimants that they intend to defend the claim in full. The Imperial Defendants have not yet been required to file their Defence.

A procedural hearing scheduled for November/December 2021 was adjourned. The deadline for Imperial and BAT to file a defence has been postponed pending other case management actions and will be determined at a subsequent case management hearing which will be held after the completion of a matching exercise (which will seek to establish whether the claimants worked for farmers who grew tobacco purchased by either Defendant group). The claim is unquantified and given the early stage of the litigation a provision would not be appropriate.

### Morocco

A number of cases have been raised against Société Marocaine des Tabacs SA (SMT) disputing a reduction to retirees' pensions. These cases have been in the courts for several years and SMT has successfully defended many of them in the lower courts. A total of 188 cases have been reviewed by the Cour de Cassation (Supreme Court) in Morocco, and it is understood that they have been decided against SMT and in favour of retirees. SMT has filed retractions proceedings and raised new legal arguments in pending and new claims before the lower courts.

The written reasoned judgment of the Cour de Cassation in claims found against SMT has not been received by SMT at the time of signing these accounts. Furthermore, the judgments in favour of the retirees reportedly relate to unquantified claims. Because of this, it is not possible to assess the impact of the decided cases on the remaining cases within the Moroccan courts. SMT continues to defend its position.

### Spain

A claim has been made against the Group's subsidiary, Altadis SA, by the General Attorney of Spain seeking repayment of state aid paid out between c. 2004 and 2010 (part of which period was prior to the Group's acquisition of Altadis, which took place in 2008). State aid was paid by the regional government of Andalusia to various insurance companies, to finance the early retirement costs of Altadis ex-employees following the termination of their employment contracts related to closure of an Altadis factory. In January 2022 the Court ordered that the claim should proceed to the next stage and that Altadis should file a bank guarantee in the sum of €27.3 million at Court (the amount claimed plus 1/3 required under Spanish law). Altadis appealed the ruling on the guarantee and, in September 2022, the Appeal Court decided that Altadis should not provide any guarantee. There are no dates scheduled in the court timetable for hearing the appeals against the main claim. The Group does not expect this claim to succeed, and no associated provision has been recognised.

## 30. NET DEBT

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

| £ million | Current borrowings | Lease liabilities | Non-current borrowings | Derivative financial instruments | Liabilities from financing activities | Cash and cash equivalents | Total |
|---|---|---|---|---|---|---|---|
| At 1 October 2021 | **(1,107)** | **(251)** | **(8,715)** | **(587)** | **(10,660)** | **1,287** | **(9,373)** |
| Reallocation of current borrowings from non-current borrowings | **(1,392)** | **–** | **1,392** | **–** | **–** | **–** | **–** |
| Net cash flow | **1,595** | **68** | **(829)** | **(94)** | **740** | **515** | **1,255** |
| Accretion of interest | **58** | **(6)** | **(16)** | **(7)** | **29** | **–** | **29** |
| Change in fair values | **–** | **–** | **–** | **270** | **270** | **–** | **270** |
| New leases, terminations and modifications | **–** | **(54)** | **–** | **–** | **(54)** | **–** | **(54)** |
| Exchange movements | **(165)** | **(5)** | **(828)** | **331** | **(667)** | **48** | **(619)** |
| At 30 September 2022 | **(1,011)** | **(248)** | **(8,996)** | **(87)** | **(10,342)** | **1,850** | **(8,492)** |

| £ million | Current borrowings | Lease liabilities | Non-current borrowings | Derivative financial instruments | Liabilities from financing activities | Cash and cash equivalents | Total |
|---|---|---|---|---|---|---|---|
| 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 | – | – | – | – |
| Net cash flow | 1,294 | 69 | 72 | (41) | 1,394 | (330) | 1,064 |
| Accretion of interest | 13 | (7) | 1 | 1 | 8 | – | 8 |
| Change in fair values | – | – | – | 51 | 51 | – | 51 |
| New leases, terminations and modifications | – | (26) | – | – | (26) | – | (26) |
| Exchange movements | 83 | 12 | 367 | 218 | 680 | (9) | 671 |
| At 30 September 2021 | (1,107) | (251) | (8,715) | (587) | (10,660) | 1,287 | (9,373) |

Average reported net debt during the year was £9,822 million (2021: £11,148 million).

### Analysis by denomination currency

| £ million | GBP | EUR | USD | Other | 2022 Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | **257** | **216** | **971** | **406** | **1,850** |
| Total borrowings | **(1,631)** | **(3,261)** | **(5,096)** | **(19)** | **(10,007)** |
| | **(1,374)** | **(3,045)** | **(4,125)** | **387** | **(8,157)** |
| Effect of cross currency swaps | **1,561** | **(3,637)** | **2,056** | **–** | **(20)** |
| | **187** | **(6,682)** | **(2,069)** | **387** | **(8,177)** |
| Lease liabilities | **(45)** | **(148)** | **(20)** | **(35)** | **(248)** |
| Derivative financial instruments | | | | | **(67)** |
| Net debt | | | | | **(8,492)** |

| £ million | GBP | EUR | USD | Other | 2021 Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | 190 | 188 | 505 | 404 | 1,287 |
| Total borrowings | (2,696) | (3,179) | (3,917) | (30) | (9,822) |
| | (2,506) | (2,991) | (3,412) | 374 | (8,535) |
| Effect of cross currency swaps | 2,580 | (4,147) | 1,305 | – | (262) |
| | 74 | (7,138) | (2,107) | 374 | (8,797) |
| Lease liabilities | (37) | (153) | (23) | (38) | (251) |
| Derivative financial instruments | | | | | (325) |
| Net debt | | | | | (9,373) |

## 31. RECONCILIATION OF CASH FLOW TO MOVEMENT IN NET DEBT

| £ million | 2022 | 2021 |
|---|---|---|
| Increase/(decrease) in cash and cash equivalents | **515** | (330) |
| Cash flows relating to derivative financial instruments | **(94)** | (41) |
| Repayment of lease liabilities | **68** | 69 |
| Increase in borrowings | **(1,710)** | (858) |
| Repayment of borrowings | **2,476** | 2,224 |
| Change in net debt resulting from cash flows | **1,255** | 1,064 |
| Other non-cash movements including revaluation of derivative financial instruments | **299** | 59 |
| Lease liabilities | **(54)** | (26) |
| Exchange movements | **(619)** | 671 |
| Movement in net debt during the year | **881** | 1,768 |
| Opening net debt | **(9,373)** | (11,141) |
| Closing net debt | **(8,492)** | (9,373) |

The increase in borrowings and repayment of borrowings reflect the cash flow movements relating to borrowings outstanding at the start and at the end of each financial year; cash flows relating to short term borrowings drawn down and repaid within the year are not included in this analysis.

## 32. NON-CONTROLLING INTERESTS

### Material non-controlling interests

Detailed below is the summarised financial information of Logista, being a subsidiary where the non-controlling interest of 49.99 % is considered material to the Group.

### Summarised balance sheet

at 30 September

| Euro million | 2022 | 2021 |
|---|---|---|
| Current assets | **6,094** | 5,958 |
| Current liabilities | **(6,763)** | (6,687) |
| **Current net assets** | **(669)** | (729) |
| Non-current assets | **1,599** | 1,630 |
| Non-current liabilities | **(365)** | (376) |
| **Non-current net assets** | **1,234** | 1,254 |
| **Net assets** | **565** | 525 |

### Summarised statement of comprehensive income
for the year ended 30 September

| Euro million | 2022 | 2021 |
|---|---|---|
| **Revenue** | **11,464** | 10,817 |
| Profit for the year | **199** | 174 |
| Other comprehensive income | **7** | – |
| **Total comprehensive income** | **206** | 174 |

### Summarised cash flow statement
for the year ended 30 September

| Euro million | 2022 | 2021 |
|---|---|---|
| Cash flows from operating activities | **649** | (302) |
| Cash flows from investing activities | **(63)** | 505 |
| Cash flows from financing activities | **(539)** | (194) |
| **Net increase in cash and cash equivalents** | **47** | 9 |

## 33. POST BALANCE SHEET EVENTS

### Share Buybacks
On 6 October 2022 Imperial Brands plc ("the Company") announced the start of an ongoing share buyback programme, to initially repurchase up to £1 billion of shares in the period from 7 October 2022 to 30 September 2023.

### Pension fund loan
Imperial Brands Finance PLC provided a temporary loan facility of £320 million to the Imperial Tobacco Pension Fund, of which £200 million had been drawn down during the first half of October 2022 to support ongoing liquidity requirements within the Fund's Liability Driven Investment holdings during a period of volatility in the UK Government Bond market. £70 million of the drawn amount has been repaid, with the remaining £130 million to be repaid before 31 March 2023.

### Logista acquisitions
In October 2022, the Group's subsidiary Logista completed the acquisition of Carbó Collbatellé, S.L. and Transportes El Mosca. Further details can be found in note 10.

### Russian disposal – associated markets exits
Following the decision to sell the Volgograd factory that completed April 2022, it was determined that it would no longer be economically viable to operate in a number of associated markets. As a consequence of this, the Group announced on 1 November 2022 that it was ending all operations in Kazakhstan, Kyrgyzstan and Mongolia.

## 34. RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the full registered address and the effective percentage of equity owned by the Imperial Brands PLC, as at 30 September 2022, are provided in the entity financial statements of Imperial Brands PLC. There are no material related parties other than Group companies.

## ADJUSTED PERFORMANCE MEASURES

### Use of adjusted performance measures

Management believes that non-GAAP or adjusted performance measures provide an important comparison of business performance and reflect the way in which the business is controlled. The adjusted performance 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 performance measures exclude, where applicable, amortisation and impairment of acquired intangibles, profit/loss on disposal of subsidiaries, Russian and associated markets exit, restructuring costs, acquisition and disposal costs, fair value and exchange gains and losses on financial instruments, post-employment benefits net financing cost, and related tax effects and tax matters. Other significant gains or losses which are not representative of the underlying business may also be treated as adjusting items where there is appropriate justification. The adjusted performance measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. The adjusted performance measures that are used by the Group are defined and reconciled back to the associated IFRS metrics as detailed below.

### Summary of key adjusting items

The items excluded from adjusted performance 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 performance measures are used by management to assess the Group's financial performance and aid comparability of results year on year.

### Consolidated income statement adjusting items

The following tables summarise the key items recognised within the consolidated income statement that have been treated as adjusting items:

#### Adjusting items recognised within administrative and other expenses

| £ million | Notes | 2022 | 2021 |
|---|---|---|---|
| Russian and associated markets exit costs | | **(399)** | – |
| Amortisation and impairment of acquired intangibles | | **(349)** | (450) |
| Restructuring costs | 5 | **(197)** | (257) |
| Fair value adjustment to financial assets | | **(37)** | 15 |
| (Loss)/profit on disposal of subsidiaries | 10 | **(29)** | 281 |
| Acquisition and disposal costs | | **(5)** | (17) |
| Excise tax provision | | **9** | 1 |
| Buy-out of liabilities on Irish pension scheme | | **(4)** | – |
| Total adjusting administrative and other expenses | | **(1,011)** | (427) |
| Total non-adjusting administrative and other expenses | | **(323)** | (336) |
| Administrative and other expenses | | **(1,334)** | (763) |

### 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. The Group exclude from our adjusted performance 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.

Total amortisation and impairment for the year is £394 million (2021: £575 million) of which £349 million (2021: £450 million) relates to acquired intangibles and is adjusting and £45 million (2021: £125 million) relates to internally generated intangibles and is non adjusting. In the year to 30 September 2022 adjusting items all relate to amortisation. £323 million (2021: £320 million) is attributable to Tobacco & NGP and £26 million (2021: £85 million) is attributable to distribution.

### Profit/loss on disposal of subsidiaries/acquisition and disposal costs

Adjusted performance 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 and disposal 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.

### 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.

### Russian and associated markets exit

The portion of the loss on exit of the Russian and associated markets adjusted out of operating profit was £399 million comprising a loss on transfer of Russian operations of £364 million and impairment of assets and exit costs of the associated markets of £35 million.

### Fair value adjustment to financial assets

As the movement in the fair value of loan receivables associated with the investment in Auxly Cannabis Group Inc. and the movement in the investment in associate Oxford Cannabinoid Technologies Holdings plc has the potential to be significant, and do not relate to the day to day operational performance of the group, the Group has excluded these fair value movements from adjusted operating profit.

## Adjusting items recognised within share of (loss)/profit of investments accounted for using the equity method

| £ million | Notes | 2022 | 2021 |
|---|---|---|---|
| Impairment of intangible assets held by Global Horizons Ventures Limited | | **(24)** | – |
| Other profits from investments accounted for using the equity method | | **9** | 11 |
| Share of (loss)/profit of investments accounted for using the equity method | | **(15)** | 11 |

### Impairment of intangible assets held by global horizon joint venture

The Group has an investment in the Global Horizon Ventures Limited joint venture company which is accounted for as an investment using the equity method. This entity held an intangible asset relating to royalties arising on the sales of a specific brand within Russia. Following the transfer of the Russian assets these royalties will cease and therefore the Group's share of this asset has now been fully impaired with a charge of £24 million.

## Adjusting items recognised within tax

| £ million | 2022 | 2021 |
|---|---|---|
| Deferred tax on amortisation of acquired intangibles | **15** | 31 |
| Tax on net foreign exchange and fair value gains and losses on financial instruments | **(183)** | 78 |
| Tax on post-employment benefits net financing cost | **–** | 1 |
| Tax on restructuring costs | **49** | 72 |
| Tax on disposal of subsidiaries | **8** | 11 |
| Recognition of tax credits | **–** | 239 |
| Provision for state aid tax recoverable | **(101)** | – |
| Uncertain tax positions | **63** | – |
| Deferred tax on unremitted earnings | **26** | – |
| Tax on unrecognised losses | **(8)** | (47) |
| Other non-adjusting taxation charges | **(755)** | (716) |
| Reported tax | **(886)** | (331) |

### Tax adjustments related to other pre-tax adjusting items

The adjusted tax charge has been calculated to include the tax effects of a number of pre-tax adjusting items including the amortisation of acquired intangibles, net foreign exchange gains and losses, fair value movements on financial instruments, restructuring costs and post-employment benefits net financing cost. The tax effect of the result of the disposal of subsidiaries has also been adjusted.

### Significant one-off tax charges or credits

The adjusted tax charge also excludes 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 tax losses and tax credits not historically generated in the normal course of business are excluded on the same basis.

### Recognition of tax credits

The recognition and utilisation of deferred tax assets relating to tax credits not historically generated in the normal course of business are excluded from the adjusted tax charge.

### Uncertain tax positions

Significant one-off tax charges or credits arising from a provision for uncertain tax items not arising in the normal course of business are excluded from the adjusted tax charge.

### Provision for State aid recoverable

Significant one-off tax charges or credits arising from prior period items are excluded from the adjusted tax charge. The provision against the state aid tax recoverable is excluded from the adjusted tax charge on this basis.

### Deferred tax on unremitted earnings

Significant one-off tax charges or credits arising from prior period items are excluded from the adjusted tax charge. The tax effect of the release of a provision for deferred tax on unremitted earnings is excluded from the adjusted tax charge on this basis.

### Tax on unrecognised losses

The recognition and utilisation of deferred tax assets relating to losses not historically generated in the normal course of business are excluded from the adjusted tax charge.

## DEFINITIONS AND RECONCILIATIONS OF ADJUSTED MEASURES

### A) Tobacco & NGP 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 the Group 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.

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

| | | | 2022 | | | 2021 |
|---|---|---|---|---|---|---|
| £ million | **Tobacco** | **NGP** | **Total** | Tobacco | NGP | Total |
| Revenue | **23,232** | **224** | **23,456** | 23,664 | 199 | 23,863 |
| Duty and similar items | **(15,628)** | **(16)** | **(15,644)** | (16,218) | (11) | (16,229) |
| Sale of peripheral products | **(19)** | **–** | **(19)** | (24) | – | (24) |
| Net revenue | **7,585** | **208** | **7,793** | 7,422 | 188 | 7,610 |

### B) 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.

#### Reconciliation from Distribution revenue to Distribution net revenue

| £ million | **2022** | 2021 |
|---|---|---|
| Revenue | **9,756** | 9,589 |
| Cost of sales – Distribution | **(8,710)** | (8,520) |
| Distribution net revenue | **1,046** | 1,069 |

### C) Adjusted operating profit

Adjusted operating profit is calculated as operating profit amended for a number of adjustments, the principal changes are detailed below. This measure is separately calculated and disclosed for Tobacco, NGP and Distribution where appropriate.

#### Reconciliation from profit before tax to adjusted operating profit

| £ million | **2022** | 2021 |
|---|---|---|
| Profit before tax | **2,551** | 3,238 |
| Net finance costs/(income) | **117** | (81) |
| Share of loss/(profit) of investments accounted for using the equity method | **15** | (11) |
| Operating profit | **2,683** | 3,146 |
| Russian and associated markets exit costs | **399** | – |
| Amortisation and impairment of acquired intangibles | **349** | 450 |
| Restructuring costs | **197** | 257 |
| Fair value adjustment to financial assets | **37** | (15) |
| Loss/(profit) on disposal of subsidiaries | **29** | (281) |
| Acquisition and disposal costs | **5** | 17 |
| Excise tax provision | **(9)** | (1) |
| Buy-out of liabilities on Irish pension scheme | **4** | – |
| Total adjustments | **1,011** | 427 |
| Adjusted operating profit | **3,694** | 3,573 |

### Reconciliation from Tobacco & NGP operating profit to adjusted operating profit

| £ million | 2022 | 2021 |
|---|---|---|
| Operating profit | **2,472** | 2,991 |
| Russian and associated markets exit | **399** | – |
| Amortisation and impairment of acquired intangibles | **323** | 365 |
| Restructuring costs | **197** | 249 |
| Loss/(profit) on disposal of subsidiaries | **13** | (281) |
| Fair value adjustment to financial assets | **37** | (15) |
| Acquisition and disposal costs | **5** | – |
| Excise tax provision | **(9)** | (1) |
| Buy-out of liabilities on Irish pension scheme | **4** | – |
| Adjusted operating profit | **3,441** | 3,308 |

### Reconciliation from distribution operating profit to adjusted operating profit

| £ million | 2022 | 2021 |
|---|---|---|
| Operating profit | **212** | 148 |
| Loss on disposal of subsidiaries | **16** | – |
| Acquisition and disposal costs | **–** | 17 |
| Amortisation of acquired intangibles | **26** | 85 |
| Restructuring costs | **–** | 8 |
| Adjusted operating profit | **254** | 258 |

See note 7 for details of the Excise tax. See note 11 for details on amortisation and impairment, note 10 for details of acquisition and disposal costs, and note 5 for details of restructuring costs.

### D) Adjusted operating profit margin

Adjusted operating profit margin is adjusted operating profit divided by net revenue expressed as a percentage. This measure is separately calculated and disclosed for Tobacco, NGP and Distribution businesses where appropriate. There is no reconciliation required for this metric.

### E) Adjusted net finance costs

Adjusted net finance costs excludes the movements in the fair value of financial instruments which are marked to market and not naturally offset. This measure also excludes all post-employment benefit net finance costs 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.

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.

The Group 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.

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.

### Reconciliation from reported net finance costs to adjusted net finance costs

| £ million | 2022 | 2021 |
|---|---|---|
| Reported net finance costs/(income) | **117** | (81) |
| Fair value gains on derivative financial instruments | **1,483** | 508 |
| Fair value losses on derivative financial instruments | **(1,213)** | (457) |
| Exchange (losses)/gains on financing activities | **(69)** | 445 |
| Net fair value and exchange losses on financial instruments | **201** | 496 |
| Interest income on net defined benefit assets | **107** | 89 |
| Interest cost on net defined benefit liabilities | **(99)** | (87) |
| Post-employment benefits net financing cost | **8** | 2 |
| Adjusted net finance costs | **326** | 417 |
| Comprising: | | |
| Interest income on bank deposits | **(9)** | (18) |
| Interest cost on lease liabilities | **6** | 7 |
| Interest cost on bank and other loans | **329** | 428 |
| Adjusted net finance costs | **326** | 417 |

## F) Adjusted tax charge

The adjusted tax charge is calculated by amending the reported tax charge for 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.

The adjusted tax rate is calculated as the adjusted tax charge divided by the adjusted profit before tax.

| £ million | 2022 | 2021 |
|---|---|---|
| Reported tax | **886** | 331 |
| Deferred tax on amortisation of acquired intangibles | **15** | 31 |
| Tax on net foreign exchange and fair value gains and losses on financial instruments | **(183)** | 78 |
| Tax on post-employment benefits net financing cost | **–** | 1 |
| Tax on restructuring costs | **49** | 72 |
| Tax on disposal of subsidiaries | **8** | 11 |
| Recognition of tax credits | **–** | 239 |
| Provision for state aid recoverable | **(101)** | – |
| Uncertain tax positions | **63** | – |
| Deferred tax on unremitted earnings | **26** | – |
| Tax on unrecognised losses | **(8)** | (47) |
| Adjusted tax charge | **755** | 716 |

## G) Adjusted earnings per share

Adjusted earnings is calculated by amending the reported basic earnings for all of the adjustments recognised in the calculation of the adjusted operating profit, adjusted finance costs and adjusted tax charge metrics as detailed above. Adjusted earnings per share is calculated by dividing adjusted earnings by the weighted average number of shares.

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

| £ million unless otherwise indicated | 2022 Earnings per share (pence) | 2022 Earnings | 2021 Earnings per share (pence) | 2021 Earnings |
|---|---|---|---|---|
| Reported basic | **165.9** | **1,570** | 299.9 | 2,834 |
| Russian and associated markets exit | **42.2** | **399** | – | – |
| Amortisation and impairment of acquired intangibles | **35.4** | **334** | 44.3 | 419 |
| Restructuring costs | **15.6** | **148** | 19.6 | 185 |
| Fair value adjustment to financial assets | **3.9** | **37** | (1.6) | (15) |
| Profit on disposal of subsidiaries | **2.2** | **21** | (29.7) | (281) |
| Acquisition and disposal costs | **0.5** | **5** | 1.8 | 17 |
| Excise tax provision | **(1.0)** | **(9)** | (0.1) | (1) |
| Buy-out of liabilities on Irish pension scheme | **0.4** | **4** | – | – |
| Tax on disposal of premium cigar division | **–** | **–** | (1.2) | (11) |
| Net fair value and exchange movements on financial instruments | **(1.9)** | **(18)** | (60.7) | (574) |
| Post-employment benefits net financing cost | **(0.8)** | **(8)** | (0.3) | (3) |
| Brand impairment in equity accounted joint venture | **2.5** | **24** | – | – |
| Provision for state aid recoverable | **10.7** | **101** | – | – |
| Uncertain tax positions | **(6.7)** | **(63)** | – | – |
| Deferred tax on unremitted earnings | **(2.7)** | **(26)** | – | – |
| Tax on unrecognised losses | **0.8** | **8** | 5.0 | 47 |
| Recognition of tax credits | **–** | **–** | (25.3) | (239) |
| Adjustments above attributable to non-controlling interests | **(1.8)** | **(18)** | (4.6) | (43) |
| Adjusted | **265.2** | **2,509** | 247.1 | 2,335 |
| Adjusted diluted | **263.3** | **2,509** | 246.4 | 2,335 |

## H) Return on invested capital (ROIC)

Return on invested capital measures the effectiveness of capital allocation and is calculated by dividing adjusted operating profit after tax by the annual average of intangible assets, property, plant and equipment, net assets held for sale, inventories, trade and other receivables and trade payables and other current liabilities.

The annual average is defined as the average of the opening and closing balance sheet values.

| £ million unless otherwise stated | 2022 | 2021 | 2020 |
|---|---|---|---|
| Reported operating profit | **2,683** | 3,146 | – |
| Adjusting items (see reconciliation c) | **1,011** | 427 | – |
| Adjusted operating profit | **3,694** | 3,573 | – |
| Equivalent tax charge | **(827)** | (807) | – |
| Net adjusted operating profit after tax | **2,867** | 2,766 | – |
| | | | |
| Working capital | **(2,823)** | (2,523) | (3,467) |
| Intangibles | **17,777** | 16,674 | 18,160 |
| Property, plant & equipment | **1,659** | 1,715 | 1,899 |
| Assets held for disposal | **–** | – | 1,024 |
| Invested capital | **16,613** | 15,866 | 17,616 |
| Average annual invested capital | **16,240** | 16,741 | – |
| Return on invested capital | **17.7%** | 16.5% | – |

## I) Constant currency

Constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations. The Group translate current year results at prior year foreign exchange rates. An analysis of all key metrics can be found in the Group Financial Review on pages 73-81.

## J) 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.

### Adjusted net debt calculation

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

| £ million | 2022 | 2021 |
|---|---|---|
| Reported net debt | **(8,492)** | (9,373) |
| Accrued interest | **105** | 140 |
| Lease liabilities | **248** | 251 |
| Fair value of interest rate derivatives | **85** | 367 |
| Adjusted net debt | **(8,054)** | (8,615) |

Average adjusted net debt during the year was £9,198 million (2021: £10,361 million).

## K) Adjusted net debt to earnings before interest, taxation, depreciation and amortisation (EBITDA) multiple

This is defined as adjusted net debt divided by adjusted EBITDA. Adjusted net debt is measured at balance sheet foreign exchange rates, with a full reconciliation shown in table J above. Adjusted EBITDA is calculated as adjusted operating profit plus amortisation, depreciation and impairments. The reconciliation from reported Group operating profit to EBITDA is shown below.

| £ million | 2022 | 2021 |
|---|---|---|
| Operating profit | **2,683** | 3,146 |
| Depreciation, amortisation and impairments | **660** | 815 |
| EBITDA | **3,343** | 3,961 |

## L) Adjusted operating cash conversion

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 operating cash conversion calculation

| £ million | 2022 | 2021 |
|---|---|---|
| Net cash flows generated from operating activities | **3,186** | 2,167 |
| Tax | **681** | 820 |
| Net capital expenditure | **(177)** | (150) |
| Restructuring | **91** | 112 |
| Cash flow post capital expenditure pre interest and tax | **3,781** | 2,949 |
| Adjusted operating profit | **3,694** | 3,573 |
| Adjusted operating cash conversion | **102%** | 83% |

## M) Free cash flow

Free cash flow is adjusted operating profit adjusted for certain cash and non cash items. The principal adjustments are depreciation, working capital movements, net capex, restructuring cash flows, tax cash flows, cash interest and minority interest dividends.

### Net cash flows generated from operating activities to free cash flow

| £ million | 2022 | 2021 |
|---|---|---|
| Net cash flows generated from operating activities | **3,186** | 2,167 |
| Net capital expenditure | **(177)** | (150) |
| Cash interest | **(358)** | (400) |
| Minority interest dividends | **(89)** | (93) |
| Free cash flow | **2,562** | 1,524 |

## GLOSSARY

Financial terms

| | |
|---|---|
| Adjusted earnings per share | This is an adjusted performance measure which is defined within section G of the supplementary information |
| Adjusted net debt | This is an adjusted performance measure which is defined within section J of the supplementary information. |
| Adjusted net debt to EBITDA multiple | This is an adjusted performance measure. Adjusted net debt is defined within section J of the supplementary information. EBITDA is defined within section K of the supplementary information. |
| Adjusted EBITDA | Adjusted EBITDA is calculated as adjusted operating profit plus amortisation, depreciation and impairments. |
| Adjusted net finance costs | This is an adjusted performance measure which is defined within section E of the supplementary information. |
| Adjusted operating cash conversion | This is an adjusted performance measure which is defined within section L of the supplementary information. |
| Adjusted operating profit | This is an adjusted performance measure which is defined within section C of the supplementary information. |
| Adjusted operating profit margin | Adjusted operating profit margin is calculated as adjusted operating profit divided by net revenue. |
| Adjusted (Non-GAAP) | Non-GAAP measures provide a useful comparison of performance from one period to the next. |
| Adjusted tax charge | This is an adjusted performance measure which is defined within section F of the supplementary information. |
| Aggregate priority market share | Aggregate weighted market volume share, based on our five priority markets (USA, Germany, UK, Spain and Australia). Market volume share is calculated based on a 12-month moving annual total (MAT) volume share position from October to September. The market volume size used in the weighting calculation is based on a constant prior year end actual market size. |
| All in cost of debt | Adjusted net finance costs divided by the average net debt in the year. |
| Constant currency | Removes the effect of exchange rate movements on the translation of the results of our overseas operations. The Group translate current year results at prior year foreign exchange rates. |
| Dividend per share | Dividend per share represents the total annual dividends, being the sum of the paid interim dividend and the proposed final dividend for the financial year. |
| GAAP | Generally accepted accounting principles. |
| EBITDA | Earnings before interest, taxation, depreciation and amortisation |
| Market share | Market share data is presented as a 12-month moving average weighted across the markets in which we operate. |
| Net debt to EBITDA | Adjusted closing net debt divided by adjusted EBITDA. |
| Reported (GAAP) | Reported (GAAP) Complies with International Financial Reporting Standards and the relevant legislation. |
| Return on invested capital | This is an adjusted performance measure which is defined within section H of the supplementary information. |
| Stick equivalent volumes | Stick equivalent volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes |
| Tobacco & NGP Net revenue/ Distribution Net Revenue | These are adjusted performance measures which are defined within sections A and B of the supplementary information. |
| Total shareholder return | Total shareholder return is the total investment gain to shareholders resulting from the movement in the share price and assuming dividends are immediately reinvested in shares. |
| A,A,A | Africa, Asia and Australasia |
| CEO | Chief Executive officer |
| CFO | Chief Financial officer |
| Distribution | Logistics segment |
| ELT | Executive leadership team |
| ERG | Employee resource groups |
| ESG | Environmental, social and governance |
| FCT | Fine cut tobacco |
| FMC | Factory made cigarette |
| KPI | Key performance indicators |
| LTIP | Long term incentive plans |
| MMC | Mass market cigar |
| MPI | Manufacturer's price increase |
| NGP | Next Generation Products |
| NTM | Non-tobacco materials |
| OND | Oral nicotine delivery category |
| Priority markets | Top 5 combustible markets USA, Germany, UK, Spain and Australia |
| PCD | Premium Cigar Division |
| SBTi | Science based target initiatives |
| SE | Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes |
| STP | Sustainable Tobacco Programme |
| TCFD | Task force on climate-related financial disclosures |
| Tobacco & NGP | Tobacco & Next Generation Products |

## IMPERIAL BRANDS PLC BALANCE SHEET
at 30 September 2022

| £ million | Notes | 2022 | 2021 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | iii | **7,968** | 7,968 |
| | | | |
| **Current assets** | | | |
| Debtors | iv | **4,744** | 3,056 |
| | | | |
| **Creditors: amounts falling due within one year** | v | **(39)** | (37) |
| **Net current assets** | | **4,705** | 3,019 |
| **Net assets** | | **12,673** | 10,987 |
| | | | |
| **Capital and reserves** | | | |
| Called up share capital | vi | **103** | 103 |
| Capital redemption reserve | | **4** | 4 |
| Share premium account | | **5,833** | 5,833 |
| Profit and loss account – brought forward | | **5,047** | 6,348 |
| Profit and loss account – profit for the year | | **3,006** | 4 |
| Profit and loss account – dividends paid | | **(1,320)** | (1,305) |
| **Total shareholders' funds** | | **12,673** | 10,987 |

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit attributable to shareholders, dealt with in the financial statements of the Company, is £3,006 million (2021: £4 million).

The financial statements on pages 230-244 were approved by the Board of Directors on 15 November 2022 and signed on its behalf by:

**LUKAS PARAVICINI**
DIRECTOR

## IMPERIAL BRANDS PLC STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2022

| £ million | Share capital | Share premium and capital redemption | Retained earnings | Total equity |
|---|---|---|---|---|
| **At 1 October 2021** | **103** | **5,837** | **5,047** | **10,987** |
| Profit for the year | **–** | **–** | **3,006** | **3,006** |
| **Total comprehensive income** | **–** | **–** | **3,006** | **3,006** |
| **Transactions with owners** | | | | |
| Dividends paid | **–** | **–** | **(1,320)** | **(1,320)** |
| **At 30 September 2022** | **103** | **5,837** | **6,733** | **12,673** |
| | | | | |
| **At 1 October 2020** | 103 | 5,837 | 6,348 | 12,288 |
| Profit for the year | – | – | 4 | 4 |
| **Total comprehensive income** | – | – | 4 | 4 |
| **Transactions with owners** | | | | |
| Dividends paid | – | – | (1,305) | (1,305) |
| **At 30 September 2021** | 103 | 5,837 | 5,047 | 10,987 |

Total distributable reserves were £6,720 million (2021: £5,033 million).

## 1. ACCOUNTING POLICIES

### Basis of preparation and statement of compliance with FRS 101

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed in note 2 of the Group financial statements for the year ended 30 September 2022.

Imperial Brands PLC (the Company) is the ultimate parent company within the Imperial Brands group (the Group). The Company is a public company limited by shares, incorporated in England and Wales and its principal activity continued to be that of holding investments. The Company's registered number is 3236483 and its registered address is 121 Winterstoke Road, Bristol, BS3 2LL. The Company does not have any employees. The Directors of the Group manage the Group's risks at a Group level, rather than at an individual entity level. These risks are detailed in note 2 of the Group's Annual Report (see pages 176-177).

These financial statements were prepared in accordance with the Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and applicable accounting standards.

The financial statements have been prepared on the historical cost basis, and as a going concern. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

As permitted by section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available in the preparation of the financial statements, as detailed below:

- Paragraph 38 of IAS 1 'Presentation of financial statements' – comparative information requirements in respect of:

(i) paragraph 79(a)(iv) of IAS 1 ;

- The following paragraphs of IAS 1 'Presentation of financial statements':

(ii) 10(d) – statement of cash flows;

(iii) 10(f) – a statement of financial position as at the beginning of the preceding period when an entity applied an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;

(iv) 16 – statement of compliance with all IFRS;

(v) 38A – requirement for minimum of two primary statements, including cash flow statements;

(vi) 38B-D – additional comparative information;

(vii) 40A-D – requirements for a third statement of financial position;

(viii) 111 – cash flow information; and

(ix) 134-136 – capital management disclosures;

- IAS 7 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting Policies, changes in accounting estimates and errors' – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;
- Paragraph 17 of IAS 24 'Related party disclosures' – key management compensation;
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payments;
- IFRS 7 'Financial Instruments: Disclosures'; and
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities.

The principal accounting policies, which have been applied consistently are set out below. The Directors do not consider there to be any critical accounting estimates or judgements in respect of the Company, see note 2 Accounting Estimates and Judgements of the consolidated financial statements for further detail.

### Investments

Investments held as fixed assets comprise the Company's investment in subsidiaries and are shown at historic purchase cost less any provision for impairment. An annual review of Investments is performed for indicators of impairment. If indicators of impairment are identified investments are tested for impairment to ensure that the carrying value of the investment is supported by their recoverable amount.

### Financial instruments

Receivables held under a hold to collect business model are stated at amortised cost.

The calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates, and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

### Treasury shares

When the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, increases shareholders' funds. When such shares are cancelled they are transferred to the capital redemption reserve.

## II. DIVIDENDS

### Distributions to ordinary equity holders

| £ million | **2022** | 2021 | 2020 |
|---|---|---|---|
| Paid interim of 42.54 pence per share (2021: 42.12 pence, 2020: 41.70 pence) | | | |
| – Paid June 2020 | **–** | – | 197 |
| – Paid September 2020 | **–** | – | 197 |
| – Paid December 2020 | **–** | – | 453 |
| – Paid June 2021 | **–** | 199 | – |
| – Paid September 2021 | **–** | 199 | – |
| – Paid December 2021 | **–** | 458 | – |
| – Paid June 2022 | **202** | – | – |
| – Paid September 2022 | **202** | – | – |
| Interim dividend paid | **404** | 856 | 847 |
| Proposed interim of 49.31 pence per share (2021: 48.48 pence, 2020: 48.00 pence) | | | |
| – To be paid December 2022 | **467** | – | – |
| Interim dividend proposed | **467** | – | – |
| Proposed final of 49.32 pence per share (2021: 48.48 pence, 2020: 48.01 pence) | | | |
| – Paid March 2021 | **–** | – | 454 |
| – Paid March 2022 | **–** | 458 | – |
| – To be paid March 2023 | **467** | – | – |
| Final dividend | **467** | 458 | 454 |
| Total ordinary share dividends of 141.17 pence per share (2021: 139.08 pence, 2020: 137.71 pence) | **1,338** | 1,314 | 1,301 |

The third interim dividend for the year ended 30 September 2022 of 49.31 pence per share amounts to a proposed dividend of £467 million, which will be paid in December 2022.

The proposed final dividend for the year ended 30 September 2022 of 49.32 pence per share amounts to a proposed dividend payment of £467 million in March 2023 based on the number of shares ranking for dividend at 30 September 2022, and is subject to shareholder approval. If approved, the total dividend paid in respect of 2022 will be £1,338 million (2021: £1,314 million). The dividend paid during 2022 is £1,320 million (2021: £1,305 million).

## III. INVESTMENTS

### Cost of shares in Imperial Tobacco Holdings (2007) Limited

| £ million | 2022 | 2021 |
|---|---|---|
| At 1 October | **7,968** | 7,968 |
| At 30 September | **7,968** | 7,968 |

The Directors confirm that the carrying value of the investments is supported by their underlying net assets.

A list of the subsidiaries of the Company is shown on pages 235-244.

## IV. DEBTORS

| £ million | 2022 | 2021 |
|---|---|---|
| Amounts owed from Group undertakings | **4,744** | 3,056 |

Amounts owed from Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

## V. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| £ million | 2022 | 2021 |
|---|---|---|
| Amounts owed by Group undertakings | **35** | 35 |
| Bank overdrafts | **2** | 2 |
| Other creditors | **2** | – |
| | **39** | 37 |

Amounts owed by Group undertakings are unsecured, interest bearing, have no fixed date for repayment and are repayable on demand.

## VI. CALLED UP SHARE CAPITAL

| £ million | 2022 | 2021 |
|---|---|---|
| Authorised, issued and fully paid | | |
| 1,020,697,238 ordinary shares of 10p each (2021: 1,020,697,238) | **103** | 103 |

On 6 March 2014, 31,942,881 shares held in Treasury were cancelled creating the Capital Redemption reserve, and between September 2017 and December 2017, 4,973,916 shares were cancelled increasing this reserve.

## VII. RESERVES

### Treasury shares

Subject to authorisation by special resolution, the Group may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of Group's issued share capital. Shares held in treasury do not qualify for dividends. Although the Group did not purchase any shares during the period, a share buyback programme was initiated after the balance sheet date, and these shares will be cancelled on completion of the purchase. Treasury shares reduced in the period after 4.0 million shares were gifted to the Employee Share Ownership Trusts to satisfy commitments to the employee share schemes.

| £ million unless otherwise indicated | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Millions of shares (number)** | **Value £** | Millions of shares (number) | Value £ |
| At 1 October | **74.3** | **2,183** | 74.3 | 2,183 |
| Gifted to Employee Share Ownership Trusts | **(4.0)** | **–** | – | – |
| At 30 September | **70.3** | **2,183** | 74.3 | 2,183 |
| Percentage of issued share capital | **6.9** | **n/a** | 7.3 | n/a |

## VIII. GUARANTEES

The Company provides guarantees to the following subsidiaries under section 479A of the Companies Act 2006, whereby the subsidiaries, incorporated in the UK, are exempt from the requirements of the Act relating to the audit of individual accounts for the financial year ending 30 September 2022:

- Imperial Tobacco Holdings (2007) Limited
- Imperial Tobacco Ventures Limited
- Rizla UK Limited
- Imperial Tobacco Overseas (Polska) Limited
- La Flor de Copán UK Limited
- Tabacalera de García UK Limited
- Imperial Brands Ventures Limited
- Nerudia Consulting Limited
- Imperial Brands Ventures Finance Limited
- Imperial Brands Ventures Holdings (1) Limited
- Imperial Brands Ventures Holdings (2) Limited

The Company has guaranteed various committed and uncommitted borrowings facilities and liabilities of certain UK and overseas undertakings, including Dutch and Irish subsidiaries. As at 30 September 2022, the amount guaranteed is £14,151 million (2021: £14,708 million).

The guarantees include the Dutch subsidiaries, all of which are included in the consolidated financial statements as at 30 September 2022.

Many of the committed revolving credit facilities remain undrawn as at 30 September 2022 but the maximum potential exposure under each facility has been included due to the ongoing commitment, only drawn utilised balances have been included for facilities that are uncommitted in nature.

The guarantees also cover the Irish subsidiary, namely John Player & Sons Limited, which is included in the consolidated financial statements as at 30 September 2022.

The Company has also provided a parent guarantee to the Imperial Tobacco Pension Trustees Ltd, the main UK pension scheme.

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised on the balance sheet.

## IX. RELATED PARTY DISCLOSURES

Details of Directors' emoluments and interests are provided within the Directors' Remuneration Report. The Directors Remuneration Report, on pages 130-148 includes details on salary, benefits, pension and share plans. These disclosures form part of the financial statements.

## X. RELATED UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures, the principal activity, the country of incorporation and the effective percentage of equity owned, as at 30 September 2022 are disclosed below. With the exception of Imperial Tobacco Holdings (2007) Limited, which is wholly owned by the Company, none of the shares in the subsidiaries is held directly by the Company.

### SUBSIDIARIES: REGISTERED IN ENGLAND AND WALES, WHOLLY OWNED

| Name | Principal activity and registered address |
|---|---|
| Altadis New Co Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Attendfriend Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| British Tobacco Company Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Congar International UK Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Hypofill Limited | In strike off<br>Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England |
| Imperial Brands Enterprise Finance Limited | Provision of treasury services to other Group companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Brands Finance PLC | Provision of treasury services to other Group companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Brands Ventures Finance Limited [v] | Provisional of finance to other Group companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Brands Ventures Holdings Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Brands Ventures Holdings (1) Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Brands Ventures Holdings (2) Limited [xi] | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Brands Ventures Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Investments Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Altadis Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Capital Assets (1) | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Capital Assets (2) | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Capital Assets (3) | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Capital Assets (4) | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Group Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Holdings (1) Limited [iv] | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Holdings (2007) Limited [iv] | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Holdings Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Initiatives | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Lacroix Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Limited | Marketing and sale of tobacco products in the UK<br>121 Winterstoke Road, Bristol BS3 2LL England |
| Imperial Tobacco Overseas (Polska) Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Overseas Holdings (1) Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Overseas Holdings (2) Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Overseas Holdings (3) Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Overseas Holdings (4) Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Overseas Holdings Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Overseas Limited [x] | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |

| Name | Principal activity and registered address |
|---|---|
| Imperial Tobacco Pension Trustees (Burlington House) Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Pension Trustees Limited [iv] | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Imperial Tobacco Ventures Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| ITG Brands Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Joseph & Henry Wilson Limited | Dormant<br>121 Winterstoke Road, Bristol BS3 2LL England |
| Nerudia Limited [v] | Research and development of e-vapour products<br>Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England |
| Nerudia Consulting Limited | Research and development of e-vapour products<br>Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England |
| La Flor de Copán UK Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Park Lane Tobacco Company Limited | Dormant<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Rizla UK Limited | Entity ceased trading<br>121 Winterstoke Road, Bristol, BS3 2LL, England |
| Sensus Investments Limited | In strike off<br>Wellington House, Physics Road, Speke, Liverpool, L24 9HP, England |
| Tabacalera de García UK Limited | Holding investments in subsidiary companies<br>121 Winterstoke Road, Bristol, BS3 2LL, England |

## SUBSIDIARIES: INCORPORATED OVERSEAS, WHOLLY OWNED

| Name | Country of incorporation | Principal activity and registered address |
|---|---|---|
| 1213509 B.C. Limited | Canada | Holding investments in subsidiary companies<br>Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC. V6C 2X8, Canada |
| Altadis Canarias S.A.U. [ii] | Spain | Marketing and sale of tobacco products in the Canary Islands<br>C/Comandante Azcárraga 5, Madrid, 28016, Spain |
| Altadis Holdings USA Inc | United States of America | Holding investments in subsidiary companies<br>714 Green Valley Road, Greensboro, NC27408 USA |
| Altadis Management Services Corporation | United States of America | Trademark service company<br>714 Green Valley Road, Greensboro, NC27408 USA |
| Altadis Middle East FZCO | United Arab Emirates | Sales and marketing of tobacco products in the Middle East<br>P.O. Box. No. 261718, Jebel Ali Free Zone, Dubai, 261718, United Arab Emirates |
| Altadis Ocean Indien S.A.S. | France (La Réunion Island) | Sales and distribution of tobacco products in la Réunion Island<br>ZI n° 2 - BP 256 - 97457 Saint Pierre Cedex, La Réunion |
| Altadis Retail Corporation | United States of America | Trademark owner<br>300 Delaware Avenue, Ste. 1230, Wilmington, DE, 19801, USA |
| Altadis S.A.U. | Spain | Manufacture, sales and distribution of tobacco products in Spain<br>C/Comandaute Azcárraga 5, Madrid 28016, Spain |
| Altadis Shade Company LLC | United States of America | Manufacture and sale of tobacco products in the USA<br>217 Shaker Road, Somers, CT, 06071, USA |
| Athena IP Vermogensverwaltunos GmbH | Germany | Davidoff cigarette trademark owner<br>Max-Born-Straße 4, Hamburg, 22761, Germany |
| Cacique, SA - Comércio, Importaçao e Exportaçao | Brazil | Dormant<br>Rua Marechal Deodoro, 690 - Centro Arapiraca, Alagoas, Brazil |
| CBHC Inc | United States of America | Dormant714 Green Valley Road Greensboro, NC27408 USA |
| Commonwealth-Altadis, Inc | United States of America | Sales and distribution of tobacco products in the USA<br>714 Green Valley Road, Greensboro, NC27408 USA |
| Commonwealth Brands Inc | United States of America | Manufacture and sale of tobacco products in the USA<br>714 Green Valley Road, Greensboro, NC27408 USA |
| Congar International Corp (Delaware) | United States of America | Manufacturing and distribution of mass market cigars<br>Road 14, Km. 72.2, Ave. Antonio R. Barcelo, Cayey, DE, PR 00736, USA |
| Connecticut Shade Corporation | United States of America | Holding investments in subsidiary companies<br>714 Green Valley Road, Greensboro, NC27408 USA |
| Consolidated Cigar Holdings Inc [vii] | United States of America | Holding investments in subsidiary companies<br>714 Green Valley Road, Greensboro, NC27408 USA |
| Coralma International S.A.S. | France | Holding investments in subsidiary companies<br>122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France |
| Direct Products Inc (Inactive) | United States of America | Holding investments in subsidiary companies<br>714 Green Valley Road Greensboro, NC27408 USA |
| Dunkerquoise des Blends S.A.S. | France | Tobacco processing<br>122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France |
| Ets L Lacroix Fils NV/SA | Belgium | Manufacture and sale of tobacco products in Belgium<br>Sint-Bavostraat 66, 2610 Wilrijk, Belgium |
| Fontem (Beijing) Technology Solutions Limited [i] | People's Republic of China | Research and development<br>Room 201, Floor 2, Building 6, Yuan Dong science and technology park, 6 Hepingli North Street, Dong Cheng District, Beijing, 100013, China |
| Fontem Canada Limited | Canada | Non-trading<br>C/O BDO Canada LLP, Suite 120, 230 Brownlow Avenue, Dartmouth, Nova Scotia B3B 0G5, Canada |
| Fontem US, LLC. | United States of America | Sales and marketing of tobacco products in the US<br>714 Green Valley Road, Greensboro, NC27408 USA |
| Fontem Ventures B.V. | The Netherlands | Holding investments in subsidiary companies<br>Radarweg 60, Amsterdam, 1043 NT, The Netherlands |
| Huotraco International Limited | Cambodia | Production and marketing of tobacco products<br>No 299, Preah Ang Duong Street, Sangkat Wat Phnom, Khan Daunh Penh, Phnom Penh, Cambodia |
| Imperial Brands Colombia S.A.S. | Colombia | In Liquidation<br>TV21 No.98 05, Bogotá D.C. Colombia |
| Imperial Brands CR s.r.o. ( formerly Imperial Tobacco s.r.o.) | Czech Republic | Sales and marketing of tobacco products in the Czech Republic<br>Karla Engliše 3201/6, 15 00, Praha 5 |
| Imperial Brands Finance France SAS | France | Provision of finance to other Group companies<br>200-216 rue Raymond Losserand, 75014, Paris |
| Imperial Brands Finance Netherlands B.V. | The Netherlands | Provision of finance to other Group companies<br>Slachtedijk 28a, 8501 ZA, Joure, Netherlands |
| Imperial Brands Finland Oy | Finland | Sales and marketing of tobacco products in Finland<br>Auriga Business Center, Juhana Herttuan Puistokatu 21, 20100 Turku |
| Imperial Brands Global Duty Free & Export S.L. | Spain | Sale and export of duty-free tobacco products<br>C/Comandaute Azcárraga 5, Madrid 28016, Spain |
| Imperial Brands Holdings International B.V. | The Netherlands | Provision of finance to other Group companies<br>Slachtedijk 28a, 8501 ZA, Joure, Netherlands |
| Imperial Brands Japan Kabushiki Kaisha [v] | Japan | Sales and marketing of tobacco products in Japan<br>The Okura Prestige Tower, 10th Floor, 2-10-4 Toranomon, Minato-ku, Tokyo 105-0001, Japan |

| Name | Country of incorporation | Principal activity and registered address |
|---|---|---|
| Imperial Brands La Romana (formerly Tabacalera de García S.A.S.) | Dominican Republic | Manufacture of cigars in the Dominican Republic<br>Industrial Free Zone #1, La Romana, Domincan Republic |
| Imperial Brands Luxembourg sarl | Luxembourg | Sale of tobacco products in Luxembourg<br>56 Rue Charles Martel, L-2134, Luxembourg |
| Imperial Brands Malta Limited | Malta | Provision of finance to other Group companies<br>Office 3, AX Business Centre, Ground Floor, Triq id-Difiża Ċivili Mosta, MST 1741, Malta |
| Imperial Brands Services Polska spolka z.o.o | Poland | Manufacturing and supply chain services to other group companies<br>Jankowice, Przemyslowa 1, 62-080 Tarnowo Padgórne, Poland |
| Imperial Brands Ventures LLC | United States of America | Holding investments in subsidiary companies<br>251 Little Falls Drive, Wilmington, DE 19808 USA |
| Imperial Finance Ireland Limited | Ireland | Provision of finance to other Group companies<br>21 Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland |
| Imperial Finance Malta Limited | Malta | Provision of finance to other Group companies<br>Office 3, AX Business Centre, Ground Floor, Triq id-Difiża Ċivili Mosta, MST 1741, Malta |
| Imperial Nominees Limited [ii] | New Zealand | Trustee Company<br>Level 24, 157 Lambton Quay, Wellington Central, Wellington 6011, New Zealand |
| Imperial Tobacco (Asia) Pte. Ltd., | Singapore | Trading of tobacco related products<br>80 Robinson Road, #02-00, 068898, Singapore |
| Imperial Tobacco Australia Limited | Australia | Sales and marketing of tobacco products in Australia<br>John Player Special House, Level 4, 4-8 Inglewood Place, Norwest, NSW 2153, Australia |
| Imperial Tobacco Austria Marketing Service GmbH | Austria | Marketing of tobacco products in Austria<br>Zieglergasse 6, A-1070 Vienna, Austria |
| Imperial Tobacco BH doo [i] | Bosnia-Herzegovina | Marketing and distribution of tobacco products in Bosnia<br>Adema Buce, Sarajevo, 71000, Bosnia & Herzegovina |
| Imperial Tobacco Bulgaria EOOD [i] | Bulgaria | Manufacture and sale of tobacco products in Bulgaria<br>15 Henrik Ibsen str, Floor 4, Office 4, Sofia, 1407, Bulgaria |
| Imperial Tobacco Distribution Romania srl | Romania | Marketing and distribution of tobacco products in Romania<br>Nicolae Canea Street no. 140-160, EOS Business Park, 1st Floor North, 2nd District, Bucharest, Romania |
| Imperial Tobacco EFKA Management GmbH | Germany | Manufacture of tobacco products in Germany<br>Max-Born-Straße 4, Hamburg, 22761, Germany |
| Imperial Tobacco España, S.L.U. | Spain | Holding investments in subsidiary companies<br>C/Comandaute Azcárraga 5, Madrid 28016, Spain |
| Imperial Tobacco Estonia OÜ | Estonia | Dormant<br>Veskiposti 2, 10138 Tallinn, Tallinn, Estonia |
| Imperial Tobacco Hellas S.A. | Greece | Sales and marketing of tobacco products in Greece<br>300 Klisthenous Str, 15344 Gerakas, Attikis, Athens, Greece |
| Imperial Tobacco Holdings (Netherlands) B.V. | The Netherlands | Provision of finance to other Group companies<br>Slachtedijk 28a, 8501 ZA, Joure, Netherlands |
| Imperial Tobacco Holdings International B.V. | The Netherlands | Provision of finance to other Group companies<br>Slachtedijk 28a, 8501 ZA, Joure, Netherlands |
| Imperial Tobacco Intellectual Property Limited | Ireland | Ownership of trademarks<br>21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland |
| Imperial Tobacco International GmbH | Germany | Export and marketing of tobacco products<br>Max-Born-Straße 4, Hamburg, 22761, Germany |
| Imperial Tobacco Ireland Unlimited Company [v] | Ireland | Dormant<br>6th Floor, 2 Grand Canal Square, Dublin 2, Ireland |
| Imperial Tobacco Italia S.r.l. | Italy | Sales and marketing of tobacco products in Italy<br>Via Luca Passi 22, Roma, 00166, Italy |
| Imperial Tobacco Italy S.r.l., | Italy | Holding investments in subsidiary companies<br>Via Luca Passi 22, Roma, 00166, Italy |
| Imperial Tobacco Kyrgyzstan LLC [i] | Kyrgyzstan | Marketing and distribution of tobacco products in Kyrgyzstan<br>115, Ibraimov Street, 10th Floor, Business Center 'Asyl-Tash', Bishkek, 720021, Kyrgyzstan |
| Imperial Tobacco Magyarország Dohányforgalmázo Kft (Imperial Tobacco Hungary) | Hungary | Sales and marketing of tobacco products in Hungary<br>Váci út 141, 1138, Budapest, Hungary |
| Imperial Tobacco Management Luxembourg sarl | Luxembourg | Holding investments in subsidiary companies<br>56 Rue Charles Martel, L-2134, Luxembourg |
| Imperial Tobacco Marketing Sdn Bhd | Malaysia | Trading of tobacco products<br>12th Floor Menara Symphony, No 5 Jalan Prof, Khoo Kay Kim, Seksyey, 46200 Petaling Jaya, Selangor, Malaysia |
| Imperial Tobacco New Zealand Limited | New Zealand | Manufacture and sale of tobacco products in New Zealand<br>Level 24, 157 Lambton Quay, Wellington Central, Wellington 6011, New Zealand |
| Imperial Brands Norway A.S. (formerly Imperial Tobacco A.S.) | Norway | Sales and marketing of tobacco products in Norway<br>Ryensvingen 2-4, 0680, Oslo, Norway |
| Imperial Tobacco Polska Manufacturing S.A. | Poland | Manufacture of tobacco products in Poland<br>Ul. Tytoniowa 2/6, Radom, 26-600, Poland |

| Name | Country of incorporation | Principal activity and registered address |
|---|---|---|
| Imperial Tobacco Polska S.A. | Poland | Manufacture and sale of tobacco products in Poland<br>Jankowice, ul. Przemyslowa 1, Pl-62-080, Tarnowo-Podgóme, Poland |
| Imperial Tobacco Portugal SSPLC | Portugal | Advertising and support management<br>144, 7 DT, Avenida da Liberdade, Lisbon, Portugal |
| Imperial Tobacco Production Ukraine [ii] | Ukraine | Manufacture of tobacco products in Ukraine<br>ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine |
| Imperial Tobacco SCG doo Beograd [ii] | Serbia | Marketing and distribution of tobacco products in Serbia<br>Milutina Milankovica 11a, Novi Beograd, Serbia |
| Imperial Tobacco Sigara ve Tutunculuck Sanayi Ve Ticaret A.S. | Turkey | Manufacture of tobacco products in Turkey<br>Kecilikoy OSB, Mah Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey |
| Imperial Tobacco Slovakia a.s. | Slovak Republic | Sales and marketing of tobacco products in the Slovak Republic<br>7A Galvaniho, 824 53 Bratislava, Slovakia |
| Imperial Tobacco Taiwan Co Limited | Taiwan | Sales and marketing of tobacco products in Taiwan<br>6F1-2 No.2 Sec. 3, Minsheng E road, Zhongshen District, Taipei, Taiwan, Province of China |
| Imperial Tobacco Taiwan Manufacturing Company Limited | Taiwan | Manufacture of tobacco products in Taiwan<br>No 8 Cyunyi Road, Jhunan, MiaoLi County 350, Taiwan Province of China |
| Imperial Tobacco Tutun Urunleri Satis Ve Pazarlama A.S. | Turkey | Sales and marketing of tobacco products in Turkey<br>Kecilikoy OSB, Mah Ahmet Tutuncuoglu Cad. No.11, 45030 Yunusemre, Manisa, Turkey |
| Imperial Tobacco Ukraine [ii] | Ukraine | Sales and marketing of tobacco products in Ukraine<br>ul. Akademika Zabolotnogo, 35, 03026, Kiev, Ukraine |
| Imperial Tobacco US Holdings BV | The Netherlands | Holding investments in subsidiary companies<br>121, Winterstoke Road, Bristol, BS3 2LL |
| Imperial Tobacco West Africa S.A.S. [ii] | Cote D'Ivoire | Holding investments in subsidiary companies<br>Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan |
| Imperial Tobacco Zagreb doo [ii] | Croatia | Dormant<br>Julija Kniefera 7, HR-100, Croatia |
| IMPTOB South Africa (Pty) Limited | South Africa | Provision of services to other Group companies<br>5 Sandwood Hills, Dunkirk Estate, Zimbali, South Africa |
| ITG Brands Holdco LLC | United States of America | Holding investments in subsidiary companies<br>714, Green Valley Road, Greensboro, NC 27408, USA |
| ITG Brands, LLC | United States of America | Marketing and distribution of tobacco products in the USA<br>714, Green Valley Road, Greensboro, NC 27408, USA |
| ITG Cigars Inc | United States of America | Manufacture and sale of cigars in the USA<br>2601 Tampa East Blvd, Tampa, Florida FL33619-8306, USA |
| ITG Holdings USA Inc [iv] | United States of America | Holding investments in subsidiary companies<br>714 Green Valley Road, Greensboro, NC27408 USA |
| ITL Pacific (HK) Limited | Hong Kong | Manufacture and sale of tobacco and tobacco related products<br>Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong |
| Imperial Ventures Malta Limited | Malta | Provision of finance to other Group companies<br>Office 3, AX Business Centre, Ground Floor, Triq id-Difiża Ċivili Mosta, MST 1741, Malta |
| JAW-Invest Oy | Finland | Trademark owner<br>Auriga Business Center, Juhana Herttuan puistokatu 21, 20100 Turku, Findland |
| John Player & Sons Limited | Ireland | Sales and marketing of tobacco products in the Republic of Ireland<br>21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland |
| John Player Ireland Pension Trustee Limited | Ireland | Trustee Company<br>21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland |
| JSNM SARL | France | Trademark owner<br>122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France |
| MYBLU Spain S.L. | Spain | Marketing and sale of e-vaopur products in Spain<br>CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain |
| Max Rohr, Inc | United States of America | Trademark owner<br>300 Delaware Avenue, Ste. 1267, Wilmington, DE,19801, USA |
| Millennium Tobacco Unlimited Company | Ireland | Provision of finance to other Group companies<br>21, Beckett Way, Park West, Nangor Road, Dublin, 12, Ireland |
| Newglade International Unlimited Company | Ireland | Dormant<br>6th Floor, 2 Grand Canal Square, Dublin 2, Ireland |
| Philippine Bobbin Corporation | Philippines | Manufacture of tobacco related products<br>Cavite Economic Zone, Phase II, Rosario, Cavite, Philippines |
| Real Club de Golf la Herrería S.A. | Spain | Management of golf course<br>CR. Robledo de Chavela, S/N. San Lorenzo del Escorial, Madrid, 28200, Spain |
| Reemtsma Cigarettenfabriken GmbH | Germany | Manufacture and sale of tobacco products in Germany<br>Max-Born-Straße 4, Hamburg, 22761, Germany |
| Skruf Snus AB | Sweden | Manufacture, marketing, sales of tobacco products in Sweden<br>PO Box 3068, Stockholm, SE-103 61, Sweden |
| Société Centrafricaine de Cigarettes S.A. [ii] | Central African Republic | Manufacture and distribution of cigarettes in Central African Republic<br>Rue David Dacko, BP 1446, Bangui, Central African Republic |

| Name | Country of incorporation | Principal activity and registered address |
|---|---|---|
| Société Centrafricaine de Distribution Sarl [ii] | Central African Republic | Dormant<br>Avenue Boganda Pk4, Bangui, Central African Republic |
| Société du Mont Nimba Sarl [ii] | Guinee Conakry | In Liquidation<br>BP 3391, Conakry, Guinea |
| Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes SAS (SEITA) | France | Manufacture and sale of tobacco products in France, and export of tobacco products<br>200-216 rue Raymond Losserand, Paris, 75014, France |
| Société pour le Développement du Tabac en Afrique S.A.S. | France | Purchasing company<br>122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France |
| System Designed to Africa Sarl | Morocco | Distribution of tobacco products<br>Km 17, Route national de Rabat, Ain Harrouda, Morocco |
| Tabacalera Brands Inc | United States of America | Trademark owner<br>103 Foulk Road, Suite 253, Wilmington, Delaware, 19803, USA |
| Tabacalera de García Limited | Bermuda | Holding investments in subsidiary companies<br>Clarendon House, 2 Church Street, Hamilton, HM 11 Bermuda |
| Tabacalera de García S.A.S. | France | Manufacture of cigars in the Dominican Republic<br>320, Rue Saint-Honore, Paris, 75001, France |
| Tahiti Tabacs SASU | France, Papeete (Tahiti) | Importation, distribution and selling of tobacco products in Tahiti (French Polynesia)<br>PK 4, 300 Côté mer, 98701 Arue, BP 20692 Papeete, French Polynesia |
| Tobaccor S.A.S. [v] | France | Holding investments in subsidiary companies<br>122 Avenue Charles de Gaulle, Neuilly sur Seine, 92200, France |
| Tobačna 3DVA, trgovsko podjetje, d.o.o. | Slovenia | Retail of products in Slovenia<br>Cesta 24., junija 90, SI 1231 Ljubljana - Ĉrnuče, Slovenia |
| Tobačna Grosist d.o.o. | Slovenia | Marketing and distribution in Slovenia<br>Cesta 24., junija 90, SI 1231 Ljubljana - Ĉrnuče, Slovenia |
| Tobačna Ljubljana d.o.o. | Slovenia | Sales and marketing tobacco products in Slovenia<br>Cesta 24., junija 90, SI 1231 Ljubljana - Ĉrnuče, Slovenia |
| Van Nelle Tabak Nederland B.V. | The Netherlands | Manufacture and sale of tobacco products in the Netherlands<br>Slachtedijk 28a, 8501 ZA, Joure, Netherlands |
| Van Nelle Tobacco International Holdings B.V. | The Netherlands | Sale of tobacco and tobacco related products<br>Slachtedijk 28a, 8501 ZA, Joure, Netherlands |
| Von Erl. Gmbh [ii] | Austria | Sale of e-vapour products in the US and Europe<br>Hegelgasse 13/26, 1010 Vienna, Austria |

## SUBSIDIARIES: INCORPORATED OVERSEAS, PARTLY OWNED

| Name | Country of incorporation | Principal activity and registered address | Percentage owned |
|---|---|---|---|
| Be To Be Pharma, S.L.U | Spain | Distribution of pharmaceuticals<br>C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain | 50.0 |
| CDIL Companhia de Distribuçao Integral Logista Portugal, SA. | Portugal | Marketing and sale of tobacco and other products, and payment services in Portugal.<br>Edifico Logista, Rua do Vale da Fonte Coberta, 153 E 167, 2890-182 Alcochete, Portugal | 50.0 |
| Compagnie Agricole et Industrielle des Tabacs Africains S.A.S. | France | Management company<br>143 bd Romain Rolland, Cedex 14, Paris, 75685, France | 99.9 |
| Compagnie Réunionnaise des Tabacs S.A.S. | France, St Pierre (La Réunion Island) | Manufacture of cigarettes<br>ZI n° 2 - BP 256 - 97457 Saint Pierre Cedex, La Réunion | 98.9 |
| Compañía de Distribución Integral de Publicaciones Logista S.L.U. [iv] | Spain | Distribution of published materials and other products<br>Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a - Modulo 3, Alcorcón, Madrid, 28922, Spain | 50.0 |
| Compañía de Distribución Integral Logista Holdings, S.A. [iii] | Spain | Holding investments in subsidiary companies<br>C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain | 50.0 |
| Compañía de Distribución Integral Logista Polska, sp. Z o.o. (SL) | Poland | Distribution of tobacco products in Poland<br>AV. Jerozolimskie 96 - 7ª Planta, Edificio Equator II, 02-304 Warsaw, Poland | 50.0 |
| Compañía de Distribución Integral Logista S.A.U. | Spain | Distribution of tobacco products in Spain<br>C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain | 50.0 |
| Dronas 2002, S.L.U. | Spain | Industrial parcel and express delivery service<br>Energía, 25-29; Polígono Industrial Nordeste, Sant Andreu de la Barca, Barcelona, 08740, Spain | 50.0 |
| Imperial Tobacco TKS a.d. [i] | Macedonia | Manufacture, marketing and distribution of tobacco products in Macedonia<br>ul 11, Oktomvri 125, P O Box 37, 1000 Skopje, Macedonia | 99.1 |
| Imperial Tobacco TKS a.d. - Dega Kosove | Kosovo | Manufacture, marketing and distribution of tobacco products in Kosovo<br>Rrafshi i Kosoves, Nr. 80 (Magjistralja M2: Prishtine-Shkup, km i 2-te Vetermik) Prishtine, Republic of Kosovo | 99.1 |
| Imprimerie Industrielle Ivoirienne SA [i] | Côte D'Ivoire | Printing company<br>Zone Industrielle du Banco, Lots No 147-149-150, 01 BP 4124, Yopougon/Abidjan, Côte d'Ivoire | 78.8 |
| La Mancha 2000, S.A., Sociedad Unipersonal | Spain | Distribution services<br>Av. de la Veguilla, 12-Nave A- Parcela S-120, Cabanillas del Campo, Guadalajara, 19171, Spain | 50.0 |
| Logesta Deutschland Gmbh, Sociedad Unipersonal | Germany | Long haul transportation in Germany<br>Pilotystrasse, 4, 80538 München, Germany | 50.0 |
| Logesta France SARL | France | Long haul transportation in France<br>Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France | 50.0 |
| Logesta Gestión de Transporte S.A.U. | Spain | Long haul transportation services in Spain<br>C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain | 50.0 |
| Logesta Italia, S.R.L., Sociedad Unipersonal | Italy | Long haul transportation in Italy<br>Via Valadier, 37 - 00193 Roma, Italy | 50.0 |
| Logesta Lusa LDA | Portugal | Long haul transportation in Portugal<br>Edifico Logista, Rua do Vale da Fonte Coberta, 153 E 167, 2890-182 Alcochete, Portugal | 50.0 |
| Logesta Polska Sp Zoo | Poland | Long haul transportation in Poland<br>Av. Jerozolimskie 96 - 7ª Planta Edificio Equator II, Varsovia, Poland | 50.0 |
| Logista France Holding S.A. | France | Holding investments in subsidiary companies<br>Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France | 50.0 |
| Logista France S.A.S. | France | Holding investments in subsidiary companies<br>Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France | 50.0 |
| Logista Italia Spa | Italy | Long haul transportation in Italy<br>Via Valadier, 37 - 00193 Roma, Italy | 50.0 |
| Logista Payments, S.L.U. | Spain | Provision of financial services<br>C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain | 50.0 |
| Logista Pharma Canarias, S.A.U. | Spain | Pharmaceutical products logistics in Canary Islands<br>C/ Entreríos Nave 3; Las Palmas de Gran Canaria, 35600, Spain | 50.0 |
| Logista Pharma S.A.U. | Spain | Distribution of pharmaceuticals<br>C/ Trigo Núm. 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain | 50.0 |
| Logista Promotion et Transport S.A.S. | France | Marketing and distribution of tobacco products in France<br>Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France | 50.0 |

| Name | Country of incorporation | Principal activity and registered address | Percentage owned |
|---|---|---|---|
| Logista Regional de Publicaciones, S.A.U. | Spain | Marketing, distribution and sale to points of sale in Spain.<br>Poligono Industrial Polvoranca, Calle Trigo 39, Leganes, Madrid, Spain | 50.0 |
| Logista Strator, SLU (formerly Cyberpoint, S.L.U.) | Spain | Distribution of POS software<br>C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain | 50.0 |
| Logista Transport Europe B.V. | The Netherlands | Holding Company<br>Learderhoogtwig 25, 1101 EB, Amsterdam, The Netherlands | 50.0 |
| Logista, Transportes, Transitários e Pharma, Lda., Sociedad Unipersonal | Portugal | Industrial parcel delivery and pharmaceutical Distribution in Portugal<br>Edifico Logista, Rua do Vale da Fonte Coberta, 153 E 167, 2890-182 Alcochete, Portugal | 50.0 |
| Logista-Dis S.A.U. | Spain | Sale of tobacco products in Spain<br>C/ Trigo, 39 - Polígono Industrial Polvoranca, Leganés, Madrid, 28914, Spain | 50.0 |
| MABUCIG Industries S.A. | Burkina Faso | Manufacture of cigarettes in Burkina Faso<br>No 55, Rue 19.14, B.P. 94, Kodeni, - Bobo Dioulasso, Burkina Faso | 72.7 |
| MABUCIG (Manufacture Burkinabe de Cigarette) | Burkina Faso | Manufacture of cigarettes in Burkina Faso<br>Zone Industrielle de Bobo-Dioulasso, Secteur No 19, Rue 19.14 No adressage 55, B.P. 94 - Bobo Dioulasso, Burkina Faso | 72.7 |
| Macotab S.A.S. (Manufacture Corse des Tabacs) | France, Bastia | Manufacture and sales of cigarettes<br>Route Nationale 193, Furiani, 20600, France | 99.9 |
| Manufacture de Cigarettes du Tchad S.A. | Tchad | Manufacture and distribution of cigarettes in Chad<br>0502 rue 1039, Arrondissement 1, N'Djamena, Chad | 95.0 |
| Midsid – Sociedade Portuguesa de Distribução, S.A., Sociedad Unipersonal | Portugal | Wholesale of tobacco and other products<br>Edificio Logista, Pracetta do Vale Da Fonte, Coberta 153/167, Freguesia de Alcochete, Portugal | 50.0 |
| MTOA S.A. [i] | Senegal | Manufacture and sales of cigarettes in Senegal<br>Km 2-5 Bld du Centenaire de la commune de Dakar, Dakar, Senegal | 98.3 |
| Publicaciones y Libros S.A.U. | Spain | Publishing company<br>Avenida de Europa No.2, Edificio Alcor Plaza/Ala Este Planta 4a - Modulo 3, Alcorcón, Madrid, 28922, Spain | 50.0 |
| Reemtsma Kyrgyzstan OJSC [i] | Kyrgyzstan | In liquidation<br>115, Ibraimov Str., 10th Floor, Business Center "Asyl-Tash",, Bishkek, Kyrgyzstan | 99.7 |
| S3T Pte Ltd [i] | Singapore | Holding investments in subsidiary companies<br>80 Robinson Road, #02-00, 068898, Singapore | 51.0 |
| SACIMEM S.A. [i] | Madagascar | Manufacture of cigarettes in Madagascar<br>110 Antsirabe - Madagascar, Route d'Ambositra, BP 128, Madagascar | 65.4 |
| SITAB Industries S.A. [i] | Cote D'Ivoire | Manufacture of cigarettes in Côte D'Ivoire<br>Rue de l'Industrie - Lot No 19, 01 - BP 607, Bouake, Côte d'Ivoire | 75.9 |
| SITAR Holding S.A.S. | France (La Réunion Island) | Holding investments in subsidiary companiesr<br>Z.I n2, B.P. 256, 97457 Saint Pierre, Ile de la Réunion, France | 99.0 |
| Société Africaine d'Impression Industrielle S.A. [i] | Senegal | Manufacture and distribution of cigarettes in Senegal<br>Route de Bel Air - Km 2200, Dakar, Senegal | 99.8 |
| Société Allumettiere Française S.A.S. | France | Manufacture and distribution of cigarettes<br>Inmeuble Le Bristol, 27 Avenue des Murs du Parc, 94300 Vincennes, France | 50.0 |
| Société des Cigarettes Gabonaises S.A. [i] | Gabon | In liquidation<br>2381 bld Léon MBA, BP 2175, Libreville, Gabon | 87.8 |
| Société Industrielle et Agricole du Tabac Tropical S.A. [i] | Congo | Manufacture and distribution of cigarettes in Congo<br>Avenue de la Pointe Hollandaise, Mpila, BP 50, Brazzaville, Congo | 89.7 |
| Société Ivoirienne des Tabacs S.A. [i] [iii] | Côte D'Ivoire | Manufacture and distribution of cigarettes in Ivory Coast<br>Cocody-Nord, Quartier Gendarmerie, TF 5937, 01 B.P. 724 Abidjan | 74.9 |
| Société Marocaine des Tabacs S.A. | Morocco | Manufacture and distribution of cigarettes in Morocco<br>87 Rue Hamed El Figuigui, Casablanca, 20500, Morocco | 99.9 |
| SOCTAM S.A. [i] | Madagascar | Manufacture and distribution of cigarettes in Mali<br>15 Rue Geoges V, Mahajanga, Madagascar | 50.5 |
| SOTCHADIS S.A.S. | Chad | Non-trading<br>502 Rue 1039, BP 852, N'Djamena, Chad | 95.0 |
| Terzia SPA | Italy | Wholesale to tobacconists in Italy<br>Via Valadier, 37 - 00193 Roma, Italy | 50.0 |

## ASSOCIATES: INCORPORATED OVERSEAS

| Name | Country of incorporation | Principal activity and registered address | Percentage owned |
|---|---|---|---|
| 24 Hours B.V | The Netherlands | Courier Express Sector<br>Wijkermeerstraat 31, 2131 HB, Hoofddorp, The Netherlands | 35.0 |
| Alcome S.A.S. | France | Waste management<br>88 avenue des Ternes, Paris, 75017, France | 24.0 |
| Azur Finances S.A. | Cameroon | Holding investments in subsidiary companies<br>B.P 1105, Douala, Cameroon | 20.0 |
| Compañia Española de Tabaco en Rama SA (Cetarsa) [i] | Spain | Production and sale of raw tobacco<br>Avenida de las Angustias, 20, 10300 Navalmoral de la Mata, Cáceres, Spain | 20.8 |
| Distribuidora de Ediciones SADE, S.A. | Spain | Distribution of published materials and other products in Spain<br>Calle B, esquina calle 4, s/n. Sector B, Polígono Industrial Zona Franca, 08040 Barcelona, Spain | 35.0 |
| Distribuidora de Publicaciones del Sur, S.A. | Spain | Distribution of published materials and other products<br>Carretera de la Esclusa, S/N - Pariela 2, Modulo 4, Sevilla, 41011, Spain | 25.0 |
| Distribución de Publicaciones Siglo XXI, Guadalajara | Spain | Distribution of published materials and other products in Spain<br>Francisco Medina y Mendoza, 2, 19171 Cabanillas del Campo, Guadalajara, Spain | 40.0 |
| Distribuidora Valenciana de Ediciones S.A. | Spain | Distribution of published materials and other products in Valencia<br>Pedrapiquers 5, Poligono Industrial Vara de Quart, Valencia, 46014, Spain | 25.0 |
| Entreprises des Tabacs en Guinée [i] | Guinée Conakry | Dormant<br>B.P 3391, Conakry, Guinea | 34.0 |
| German-Ex B.V. | The Netherlands | Courier Express Sector<br>Wijkermeerstraat 31, 2131 HB, Hoofddorp, The Netherlands | 35.0 |
| Lao Tobacco Limited [i] | Laos | Manufacture and distribution of cigarettes in Laos<br>KM 8, Thadeua Road, P O Box 181, Vientiane, Lao People's Democratic Republic | 43.7 |
| Logista Libros S.L. | Spain | Distribution of books<br>Avda. Castilla La Mancha, 2 - Naves 3-4 del Polígono Industrial La Quinta, Cabanillas del Campo, Guadalajara, Spain | 25.0 |
| Promotion et Distribution a Madagascar [i] | Madagascar | Distribution of cigarettes in Madagascar<br>Tour ZITAL Ankorondrano, Antananarivo, Madagascar | 33.4 |
| SITABAC S.A. | Cameroon | Manufacture and distribution of tobacco products in Cameroon<br>113 Rue Kitchener, 1067 Bonanjo, Douala, Cameroon | 34.5 |
| Sociedad Anonima Distribuidoria De Ediciones | Spain | Publications distribution<br>Calle B, esquina calle 4, s/n. Sector B Polígono, Industrial Zona Franca, 08040 Barcelona | 35.0 |
| Société Internationale des Tabacs Malgaches [i] | Madagascar | Leaf processing<br>BP 270, 401 Mahajanga, Madagascar | 47.9 |
| Société Nationale des Tabacs et Allumettes du Mali S.A. [i] | Mali | Manufacture and distribution of cigarettes in Mali<br>Route Sotuba - Z.I., BP 59, Bamako, Mali | 28.0 |
| Speedlink Worldwide Express B.V. | The Netherlands | Courier Express Sector<br>Wijkermeerstraat 31, 2131 HB, Hoofddorp, The Netherlands | 35.0 |

## JOINT VENTURES: INCORPORATED OVERSEAS

| Name | Country of incorporation | Principal activity and registered address | Percentage owned |
|---|---|---|---|
| Global Horizon Ventures Limited | Hong Kong | Sales and marketing of cigarettes in Asia<br>Room 3907-08, 39th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong | 50.0 |
| Intertab S.A. [i] | Switzerland | Holding investments in subsidiary companies<br>Société Fiduciaire Suisse-Coopers & Lybrand S.A., Route de la Glâne 107, Villars-sur-Glâne, 1752, Switzerland | 50.0 |
| West Tobacco Pte Ltd [i] | Singapore | Dormant<br>1 Harbourfront Avenue #14-07, Keppel Bay Tower, 098632 Singapore | 50.0 |

## PARTNERSHIPS

The Group also owns the following partnerships:

| Name | Country | Principal activity, registered address and principal place of business |
|---|---|---|
| Fabrica de Tabacos La Flor de Copán S de R.L. de CV | Honduras | Holding investments in subsidiary companies<br>Registered address and principal place of business: Apartado Postal 209, Colonia Mejia-García, Santa Rosa de Copán, Honduras |
| Imperial Tobacco (Efka) GmbH & Co. KG | Germany | Manufacture of tubs in Germany<br>Registered address and principal place of business: Max-Born-Straße 4, Hamburg, 22761, Germany |
| Imperial Tobacco Kazakhstan LLP (i) | Kazakhstan | Marketing and distribution of tobacco products in Kazakhstan<br>Registered address and principal place of business: 3rd Floor, Prime Business Park, 100/2 Nursultan Nazarbayev Avenue, Medeuskiy District, Almaty, 050000, Kazakhstan |
| ITG Brands Holdpartner LP | United States of America | Marketing and sale of tobacco products in United States of America<br>Registered address and principal place of business: 714 Green Valley Road, Greensboro, NC27408, United States of America |

The subsidiaries listed were held throughout the year and the consolidated Group financial statements include all the subsidiary undertakings identified. All dormant UK entities have taken the exemption available to not have an audit of their financial statements.

Unless otherwise stated the entities are unlisted, have 1 type of ordinary share capital and a reporting period ending on 30 September each year.

(i) December year end

(ii) March year end

(iii) Listed entity

(iv) Holding of one type of ordinary share only (where more than one type of share is authorised / in issue).

(v) Holding of two or more types of ordinary share (where more than one type of ordinary share is authorised / in issue). Only applicable to 100% owned subsidiaries.

(vi) Holding of preference shares only

(vii) Holding of ordinary and preference shares

(viii) Holding of ordinary and redeemable shares

(ix) Holding of ordinary and deferred shares

(x) Holding of two types of ordinary share and redeemable shares

(xi) Holding of shares limited by guarantee.

The percentage of issued share capital held by the immediate parent and the effective voting rights of the Group are the same except for Imperial Tobacco Italia Srl where the entire share capital, and therefore 100% of the voting rights, are held by a number of Group companies.

## FINANCIAL CALENDAR AND DIVIDENDS

Half year results are expected to be announced in May 2023 and the Full year results in November 2023.

The Annual General Meeting of the Company will be held on Wednesday 1 February 2023 at the Bristol Marriott Hotel, City Centre. The Notice of Meeting and explanatory notes about the resolutions to be proposed are set out in the circular enclosed with this Report.

Dividends are generally paid at the end of March, June, September and December. Payment of the 2022 final dividend, if approved, will be on 31 March 2023 to shareholders on the Register of Members at the close of business on 17 February 2023. The associated ex-dividend date will be 16 February 2023.

## SHARE DEALING SERVICE

Our Registrars offer Shareview Dealing, a service which allows you to buy or sell Imperial Brands PLC ordinary shares if you are a UK resident. You can deal on the internet or by phone. Log on to www.shareview.co.uk/dealing or call them on 03456 037 037 between 8am and 4.30pm Monday to Friday for more information about this service. If you wish to sell your Imperial Brands PLC ordinary shares, you will need your shareholder reference number, which you can find on your share certificate.

## INDIVIDUAL SAVINGS ACCOUNT

Investors in Imperial Brands PLC ordinary shares may take advantage of a low-cost Individual Savings Account (ISA) and Investment Account where they can hold their Imperial Brands PLC ordinary shares electronically. The ISA and Investment Account are operated by Equiniti Financial Services Limited.

For further information please go to www.shareview.co.uk/dealing or call Equiniti on 0345 0700 720.

## DIVIDEND REINVESTMENT PLAN

Imperial Brands PLC has set up a dividend reinvestment plan (DRIP) to enable shareholders to use their cash dividend to buy further Imperial Brands PLC ordinary shares in the market. Further information can be obtained from Equiniti on 0371 384 2037 (+44 371 384 2037 if calling from outside the UK) or online at www.shareview.co.uk.

## AMERICAN DEPOSITARY RECEIPT FACILITY

Imperial Brands PLC ordinary shares are traded on the OTCQX International Premier platform in the form of American Depositary Shares (ADSs) using the symbol 'IMBBY'. The ADS facility is administered by J.P. Morgan Chase, N.A. and enquiries should be directed to them at the address shown below.

## WEBSITE

Information on Imperial Brands PLC is available on our website: www.imperialbrandsplc.com.

Equiniti also offers a range of shareholder information online. You can access information on your holdings, indicative share prices and dividend details and find practical help on transferring shares or updating your details at www.shareview.co.uk.

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* Lines are open 8.30am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

## AMERICAN DEPOSITARY RECEIPT FACILITY

EQ Shareowner Services
P.O. Box 64504
St. Paul, MN 55164-0504

Toll-free number inside USA: +1-800-990-1135*
From outside the USA: +1 651-453-2128*

Online: Visit www.shareowneronline.com, then scroll down to 'Contact Us' information.

* Lines are open Monday to Friday 7am to 7pm (Central Time US).

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